



Agenda Date: 5/24/04
Agenda Item: 8B

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE VERIFIED PETITION OF
ROCKLAND ELECTRIC COMPANY FOR A BONDABLE
STRANDED COSTS RATE ORDER TO AUTHORIZE THE
IMPOSITION OF A NON-BYPASSABLE TRANSITION BOND
CHARGE, THE ISSUANCE AND SALE OF UP TO \$46.3
MILLION AGGREGATE PRINCIPAL AMOUNT OF
TRANSITION BONDS, OR SUCH HIGHER AMOUNT AS MAY
BE REQUIRED BY A FINANCING ENTITY TO RECOVER
PETITIONER'S BASIC GENERATION SERVICE TRANSITION
COSTS, AND THE APPLICATION OF TRANSITION BOND
PROCEEDS TO RETIRE OUTSTANDING DEBT, EQUITY OR
BOTH, AND TO APPROVE THE METHODOLOGY FOR THE
CALCULATION AND ADJUSTMENT OF THE TRANSITION
BOND CHARGE AND TAX CHARGE RELATED THERETO.

ENERGY

BONDABLE
STRANDED COSTS
RATE ORDER

DOCKET NO. EF02110852

(SERVICE LIST ATTACHED)

BY THE BOARD:

By Petition filed November 12, 2002 ("Securitization Petition"), Rockland Electric Company ("RECO" or the "Company") requested the Board of Public Utilities ("Board" or the "BPU") to issue an irrevocable Bondable Stranded Costs Rate Order ("Financing Order") to authorize RECO: to securitize certain of the Company's Basic Generation Service Transition Costs ("Transition Costs") through the issuance and sale of transition bonds ("Transition Bonds") in the transactions proposed therein ("Transition Bond Transaction"), to impose a non-bypassable Transition Bond Charge ("TBC") and related tax charges ("TBC-Tax"), and to transfer the Bondable Transition Property (as defined below) which, in part, embodies the right to charge, collect and receive such charge, to an approved financing entity. The Company also requested approval of the methodology for the calculation and adjustment of the TBC and related TBC-Tax.

In its Summary Order issued on July 31, 2003 in RECO's Deferral and Base Rate Proceedings¹ ("Summary Order-Rates"), the Board found prudent and authorized RECO's recovery of a deferred Basic Generation Service ("BGS") balance of \$83.6 million. This amount found prudent by the Board consists of amounts by which the Company's payments for the procurement of power for BGS and related ancillary costs exceeded the net revenues during the Transition Period, together with allocated interest at the Board approved rates, that is reflected in a deferred balance account approved by the Board in its restructuring orders discussed below. The Board stated this amount was subject to a true-up to reflect additional actual data through July 31, 2003 and the results of the Board's Phase 2 audit of RECO's deferred BGS balance for Year 4 of the Transition Period (i.e., August 1, 2002 through July 31, 2003), to be conducted by Larkin & Associates, PLLC and Synapse Energy Economics, Inc. ("Larkin"). Pending the Board's decision on RECO's Securitization Petition, the Board approved an interim BGS deferral recovery of \$8.718 million per year before application of the 6% New Jersey Sales and Use Tax.

After review of updated actual data, Larkin issued its two volume Phase 2 Report on the Year 4 deferred BGS balance fixing and verifying the amount of the prudently incurred Year 4 deferred BGS balance for RECO ("Phase 2 Report"). Application of the Larkin results to the Summary Order determinations reduces the level of the Board-approved deferred BGS balance from \$83.6 million to \$83.2 million. The deferred BGS balance declines to \$75.2 million after taking into account the projected recoveries during the period August 1, 2003 through July 31, 2004. Calculating on a net of tax basis, accounting for the amounts recovered pursuant to the Board-approved interim recovery level and an additional \$300,000 reduction agreed to by RECO, assuming that RECO's securitization will be completed by August 1, 2004, and including upfront transaction costs, RECO seeks authority from the Board to securitize the recovery of Transition Costs through the issuance of \$46.3 million in Transition Bonds, and to recover the Transition Costs and other related Bondable Stranded Costs through a non-bypassable TBC.

The Company states that the proceeds of the Transition Bonds (net of Upfront Transaction Costs (as defined below)) will be used by or on behalf of the Company for the purposes of reducing the amount of its otherwise recoverable Transition Costs through the refinancing or retirement of debt or equity, or both, of the Company in a manner consistent with N.J.S.A. 48:3-62.

1. PROCEDURAL HISTORY

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. ("EDECA" or the "Act") was enacted on February 9, 1999. EDECA is a comprehensive law providing for the restructuring of the electric and gas industries in New Jersey, including the implementation of retail choice for electric generation service. EDECA, among other things, also required that rate reductions be made and maintained during the period from August 1, 1999 through July 31, 2003 ("Transition Period"), including a 10% reduction from 1997 rates for the period August 1, 2002 through July 31, 2003.

¹ I/M/O the Verified Petition of Rockland Electric Company for the Recovery of its Deferred Balances and the Establishment of Non-Delivery Rates Effective August 1, 2003, BPU Docket No. ER02080614 ("Deferral Proceeding"); I/M/O the Verified Petition of Rockland Electric Company for Approval of Changes in Electric Rates, Its Tariff for Electric Service, its Depreciation Rates, and for Other Relief, BPU Docket No. ER02100724 ("Base Rate Proceeding")

On June 24, 1999, the Board issued a Summary Order Including Protective Order that approved the sale (commonly called the “divestiture”) of all of the generating assets of RECO’s parent, Orange and Rockland Utilities, Inc., to affiliates of Southern Energy, Inc. pursuant to asset sales agreements (“Summary Order-Divestiture”).²

On July 28, 1999, the Board issued a Summary Order in RECO’s Restructuring Proceeding³ that adopted with modifications a Plan For Resolution of Proceedings (“Plan”) which was incorporated in a stipulation between RECO and New Jersey Transit. (“Summary Order-Restructuring”). In the Summary Order-Restructuring, the Board established RECO’s unbundled rates to be implemented in each year of the Transition Period, including BGS rates. During the Transition Period, the Board approved rate reductions mandated by Section 4.d. of EDECA (N.J.S.A. 48:3-52.d), including a 5% reduction on August 1, 1999, and a 10% reduction from April 30, 1997 rates during the period from August 1, 2002 through July 31, 2003. The Board also required “a further reduction of 2% from current rates effective January 1, 2001, bringing the total rate reduction as of that date to 7% from current rates.” Summary Order-Restructuring at 2. This 2% reduction consisted in part of a permanent reduction of \$1 million in RECO’s Delivery rates. Summary Order-Restructuring at 2.

At the same time, Section 9 of EDECA (N.J.S.A. 48:3-57) requires electric public utilities to continue to provide BGS for at least three years from the implementation of retail choice and thereafter until the Board finds it is no longer in the public interest for the electric utilities to do so. As discussed above, RECO divested its generation assets and needed to procure power necessary to serve BGS customer in the power markets. Section 9 of EDECA provides that electric utilities are entitled to recover, through their BGS charges, all reasonable and prudently incurred costs incurred in the provision of BGS. To the extent that the costs Rockland incurs to provide BGS exceed the recovery afforded by its regulated rates, the Board-approved Plan authorizes Rockland to defer recovery of the net excess amount (“Deferred Balance”) in a deferred account known as the Restructuring Balancing account (Plan at ¶ 28) consistent with N.J.S.A. 48:3-57.b.(3).

By Order dated June 6, 2001, the Board directed RECO and the other three electric distribution companies (“EDCs”) to each file, by June 29, 2001, specific proposals to implement a Request for Proposal (“RFP”) process for Year 4 of the Transition Period (i.e., August 1, 2002 through July 31, 2003).⁴ On June 29, 2001, the four EDCs filed a generic proposal, with individual Company-Specific Addendums, recommending that the generation supply for BGS be secured by means of a simultaneous, multi-round, descending clock auction. By Order dated December 11, 2001 (“December 11 Order”), the Board approved the EDCs’ proposed auction as being consistent with the requirements of EDECA. The Board also approved the deferral accounting and cost recovery process proposed in the EDCs’ Company Specific Addenda. The December 11, 2001 Order also required the EDCs to “make compliance filings, including any

² Petition of Rockland Electric Company for Approval of the Sale of Orange and Rockland Utilities, Inc.’s Generating Assets and Certain Related Property, a Transition Power Sales Agreement, and a Protective Order, Docket No. EM99030195.

³ I/M/O Rockland Electric Company’s Rate Unbundling, Stranded Costs, and Restructuring Filings, BPU Docket Nos. EO97070464, EO97070465 and EO97070466 (collectively “Restructuring Proceeding”).

⁴ I/M/O the Provision of Basic Generation Service pursuant to the Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq., BPU Docket Nos. EX 01050303, EO01100654, EO01100655, EO01100656 and EO01100657.

changes consistent with this decision.” Accordingly, on December 12 and December 19, 2001 RECO submitted to the Board its Company Specific Addendum Compliance Filings.

By Joint Application (“Joint Application”) to the FERC, RECO and PJM sought to effectuate a transfer from NYISO to PJM of that portion of RECO’s load which is directly connected with PJM (i.e., RECO’s Eastern Division which comprises approximately 90% of RECO’s load, or about 400 MW). RECO took such action in order to participate as a PJM member in the Year 4 BGS Auction and thereby maximize the benefits of the Auction for RECO and its customers. The FERC approved the Joint Application by Order issued December 21, 2001 in Docket Nos. EC02-7-000 and ER02-109-000. Although the actual transfer of RECO’s Eastern Division did not become effective until March 1, 2002, the FERC’s approval of the transfer allowed RECO to participate in the Year 4 BGS Auction as a member of PJM. RECO’s Central and Western Divisions continue to operate in the New York Control Area administered by the NYISO. Since March 1, 2002, RECO has obtained approximately 90% of its energy from PJM and 10% from the NYISO.

The Year 4 BGS Auction commenced on February 4, 2002 and concluded on February 13, 2002. By Order dated February 15, 2002, the Board certified the final results of the BGS auction in their entirety and approved the closing price for each EDC. The closing price for each of RECO’s four tranches (each of which was approximately 100 MW) to serve the PJM portion of RECO’s BGS load was 5.819¢/kWh, with the benefit of this pricing shared with all BGS customers in the BGS charge. The Board also directed RECO and the other three EDCs to execute the necessary contractual documents with the winning bidders. The Company met its BGS obligation for the remaining 10% of its load in Year 4 through Orange and Rockland System purchases, as set forth in RECO’s December 12, 2001 Compliance Filing that was approved by the Board.

On July 22, 2002 the Board issued its Final Decision and Order in RECO’s Restructuring Proceeding. See I/M/O Rockland Electric Company’s Rate Unbundling, Stranded Costs, and Restructuring Filings, BPU Docket Nos. EO97070464, EO97070465 and EO97070466 (“Final Order-Restructuring”). The Final Order-Restructuring (at 69) confirmed RECO’s authority to defer the BGS Deferral and to recover reasonable and prudently incurred costs with interest at the end of the Transition Period through a non-bypassable charge. The Final Order (at 59, 65) also provided that RECO must make a filing with the Board, by no later than August 30, 2002, setting forth how it proposes to recover its deferred balances and establishing the level of its unbundled rate components other than Delivery effective August 1, 2003.

On August 30, 2002, RECO submitted to the Board its Verified Petition for the recovery of its deferred balances and the establishment of non-delivery rates effective August 1, 2003. In its Petition, RECO advised it would file a separate Petition with the Board to securitize its BGS deferred balance. On October 30, 2002, RECO filed its base rate petition with the Board. By letters dated September 12, 2002, and October 16, 2002, respectively, the Board transmitted the Deferral Proceeding and the Base Rate Proceeding to the Office of Administrative Law (“OAL”) as a contested case. Both cases were assigned to the Honorable William Gural, Administrative Law Judge, (“ALJ”) for evidentiary hearings and the issuance of a single Initial Decision.

On September 9, 2002, P.L. 2002, c. 84 (“the “Securitization Act”) became effective. The Securitization Act amended EDECA to expressly authorize securitization transactions to recover Transition Costs, consisting of BGS deferred balances,

By the Securitization Petition filed November 12, 2002, RECO requested authority from the Board, pursuant to EDECA and the Securitization Act to securitize certain of the Company's Transition Costs in the Transition Bond Transaction, to impose a TBC and related TBC-Tax, and to transfer the Bondable Transition Property which, in part, embodies the right to charge, collect and receive such charge, to an approved financing entity. The Company also requested approval of the methodology for the calculation and adjustment of the TBC and related TBC-Tax. The Board did not transmit the Securitization Petition to the OAL, and subsequently recalled from the OAL the issue of the ultimate method of recovery of BGS deferred balances determined to be prudent and recoverable by Secretaries' letter dated March 25, 2003.

A prehearing conference was held at the OAL on December 3, 2002, and a prehearing order was entered on December 6, 2002. By letter dated December 12, 2002, the Ratepayer Advocate requested changes to the prehearing order. A revised prehearing order was entered on December 17, 2002.

Public hearings were held before the ALJ on February 10 and March 19, 2003 at the Holiday Inn in Montvale. Evidentiary hearings took place on February 20, 21, 24, 25, 27 and 28, 2003 at the OAL in Newark. During the pendency of the cases, pursuant to the Board's July 22, 2002 Order in BPU Docket No. ER02050303, Larkin performed an audit of RECO's deferred balances for the first three years of the Transition Period, and its Phase 1 Report was considered as part of the record in the Deferral Proceeding. Following the close of the evidentiary hearings before the ALJ, briefs and reply briefs were filed on March 18 and April 11, 2003, respectively.

The ALJ issued his Initial Decision on June 13, 2003. The parties filed Exceptions and Replies to Exceptions to the Initial Decision with the Board on June 26 and July 3, 2003, respectively.

By the Summary Order in RECO's Deferral and Base Rate Proceedings, the Board found prudent and authorized RECO's recovery of a deferred BGS balance of \$83.6 million. The Board stated this amount was subject to a true-up to reflect additional actual data through July 31, 2003 and the results of the Board's Phase 2 audit of RECO's deferred BGS balance for Year 4 of the Transition Period (i.e., August 1, 2002 through July 31, 2003), to be conducted by Larkin. Pending the Board's decision on RECO's Securitization Petition, the Board approved an interim BGS deferral recovery of \$8.718 million per year before application of the 6% New Jersey Sales and Use Tax.

After review of updated actual data, Larkin issued its Phase 2 Report on the Year 4 deferred BGS balance fixing and verifying the amount of the prudently incurred Year 4 deferred BGS balance for RECO. RECO incorporated the results of the Phase 2 Report in its panel testimony filed in this securitization docket on December 5, 2003 and entered the Phase 2 Report into the record at the public hearing in this proceeding. In addition, after providing time for the Staff in the Board's Division of Audits and the Company to review the Report for factual accuracy, the Board formally accepted the Report and released it for comment on February 11, 2004. Application of the Larkin results to the Summary Order determinations reduces the level of the Board-approved deferred BGS balance from \$83.6 million to \$83.2 million.⁵ Calculating on a net of tax basis, accounting for the amounts recovered pursuant to the Board-approved interim recovery level, and assuming that RECO's securitization will be completed by May 1, 2004, RECO seeks to securitize \$46.3 million through the issuance of Transition Bonds consisting of

⁵ The BGS deferred balance that it seeks to securitize in this proceeding does not reflect any amounts relating to above market costs of purchases from non-utility generators ("NUGs"). (2/5/04 Tr. at 57)

Transition Costs (net of tax) in the amount of \$44.3 million and upfront issuance costs of \$2 million.

On November 18, 2003, Board Staff convened a meeting at the Board's offices to establish procedures for this securitization proceeding including a public legislative-type hearing. The meeting was attended by representatives of Board Staff, the Company and the Division of Ratepayer Advocate. Pursuant to the agreed upon schedule, on December 5, 2003, the Company filed direct testimony of several witnesses in support of its proposed securitization. Specifically, the Company filed: (1) direct testimony of John E. Perkins, William A. Atzl, Jr. and Howard L. Hiller ("Company Panel testimony"); and (2) direct testimony of John F. Guastella (Guastella testimony'). On January 13, 2004 the Ratepayer Advocate filed the direct testimony of James A. Rothschild. On February 5, 2004, after proper public notice was given, a public legislative-type hearing was held before Commissioner Jack Alter. The parties who participated in the hearing were the Company, the Board's Staff and the Division of the Ratepayer Advocate. Witnesses testifying in connection with the Company's Petition included: Mr. Perkins, the treasurer of RECO and its parent Company, Orange and Rockland Utilities Inc.(including an opening statement at the hearing); Mr. Hiller, Managing Director, Fixed Income Capital Market Group, Citigroup Global Markets, Inc.; Mr. Atzl, Director of Rates for RECO; Mr. Guastella, an outside consultant for the Company; and Ellen Lapson, Managing Director of Fitch Ratings, Inc., who made a statement on the record at the hearing Mr. Rothschild testified on behalf of the Ratepayer Advocate (including an opening statement at the hearing)and John Schopfer of Bear, Stearns & Co. Inc., the Board's financial advisor, also appeared.

Commissioner Alter accepted into evidence the following Exhibits on behalf of the Company: RECO-1 (RECO's Verified Petition); RECO-2 (Company Panel Testimony); RECO-3 (Guastella testimony); RECO-4 (affidavit and notice of public hearing);RECO-5 (Larkin Phase 2 Report); RECO-6 (Ratepayer Advocate responses to discovery requests RECO-5, 6, and 7); RECO-7 (excerpt from Mr. Rothschild's testimony in the Restructuring Proceeding. Commissioner Alter accepted into evidence the following exhibit on behalf of the Ratepayer Advocate: RA-1 (Rothschild Testimony).

The witness testimony primarily focused on the benefits of the transaction. The Company provided testimony identifying benefits of the Transition Bond Transaction in several respects. One benefit asserted by the Company in its Panel testimony is a resulting rate level that constitutes a reduction from the current transition recovery charge level set by the Board on an interim basis in the Summary Order-Rates, and that is below that which would be required under alternative recovery scenarios that the Company asserts are appropriate for comparison and employment in the absence of securitization. (RECO-2, Ex. F).

In addition to rate mitigation, as another benefit the Company Panel testimony also included estimates that the Transition Bond Transaction would result in net present value savings to customers (based on assumptions at the time of the testimony filing) when compared to other alternatives the Company viewed as appropriate for comparison in the absence of securitization. The Company estimated a range of savings over the term of the Transition Bonds from approximately \$2 million when recovery through securitization is compared to a four year recovery, or up to \$13.9 million when compare to a 15 year recovery at the Company's overall cost of capital. (RECO-3, Exhibits C & E). The Ratepayer Advocate's witness admitted benefits under the Company's comparison, but asserted that securitization does not produce benefits when compared to recovery of RECO's deferred balance over 15 years at an interest rate equal to 60 basis points over the 7-year treasury rate, and should be rejected by the Board in favor of such recovery. RA-1 at 6-7. The testimony by the Company Panel and Mr. Guastella asserted

that the method proposed by Mr. Rothschild is not an appropriate alternative for the long term recovery of the Company's substantial asset consisting of the BGS deferred balance. Exhibit A of this Order sets forth the Company's calculation of the net present value benefits of the Transition Bond Transaction based on the assumptions contained herein and therein.

Another benefit was addressed in the Company Panel testimony attributed to Mr. Hiller of Citigroup wherein he asserted the transaction will produce the lowest transition bond charges consistent with market conditions. Specifically, the provisions of this Financing Order should allow the bonds to achieve triple A ratings, and Citigroup has substantial experience in structuring the bonds and will structure them and broaden the investor base through a public transaction so as to maximize investor reception and optimize pricing. (RECO-2 at 16-17.) As noted in RECO's Petition, the Board's Designee will determine that the structure and pricing of the bonds assures that customers pay the lowest Transition charges consistent with market conditions and the terms of this Order. Finally, Mr. Perkins testified that use of securitization allows the Company (and ultimately its customers) to continue to maintain a strong capital structure and the ability to finance at attractive rates, which will assist it in obtaining funding on an ongoing basis to invest in the infrastructure needed to meet the growing energy needs of its customers. (2/5/05 Tr. at 14-16)

By letter dated May 21, 2004, the Ratepayer Advocate agreed to support the proposed plan to fix the BGS net-of-tax deferred balance, including allocated interest and securitization transaction costs, at a sum of no more than \$46.3 million, and to securitize the unamortized balance as of August 1, 2004. The Ratepayer Advocate extends this support with the following understandings: first, that the Board will determine that proposed securitization meets the statutory criteria for approval; second, that the Company has agreed to forego recovery of \$300,000 of costs currently sought by the Company in the Phase II deferred balance proceeding that the Ratepayer Advocate objects to having included in. deferred balances, thereby resolving the Phase II deferral proceeding; and third, that the Ratepayer Advocate, Staff and the Company will continue to negotiate in good faith for a resolution of any other open proceedings. By letter dated May 21, 2004, RECO confirmed its agreement to these terms.

By Final Order dated May 24, 2004 in RECO's Deferral and Base Rate Proceedings, the Board affirmed the findings of the Summary Order.

2. TRANSITION BOND TRANSACTION

a. Proposed Structure-Summary

A general description of the Transition Bond Transaction structure proposed by the Company in its Petition and testimony follows. This proposed structure is subject to modification, depending upon the requirements of tax authorities, input from underwriters in connection with the marketing of the Transition Bonds and negotiations with nationally recognized statistical rating organizations (collectively the "rating agencies") selected by the Company to assign credit ratings to the Transition Bonds. The Company states that the proposed structure is intended to ensure that the Company's customers pay the lowest TBC consistent with market conditions at the time of pricing and the terms of this Financing Order, in compliance with the requirement of N.J.S.A. 48:3-62(b)(4). Pricing of the Transition Bonds will be determined by the Company in consultation with the underwriters and approved by a designee of the Board ("Designee") subject to the guidelines contained in Appendix F hereto. The structure and terms of the Transition Bond Transaction will be fixed based on such approved pricing.

As discussed further in this Financing Order, the Company seeks the authority to issue Transition Bonds and utilize such proceeds to recover the Transition Costs and upfront transaction costs. In addition to authority to issue the Transition Bonds, the Petition also requests authority to establish charges as part of the Transition Bond Transaction, and to recover through such charges on an ongoing basis, the Transition Costs and related other Bondable Stranded Costs, including: (1) any costs of retiring the Company's existing debt or equity capital⁶ (2) the taxes payable with respect to the securitized amounts to be collected from ratepayers⁷; and (3) the costs incurred to issue, service and refinance the Transition Bonds including interest, acquisition or redemption premiums, and other financing costs, including (a) the costs of issuance (deemed "Upfront Transaction Costs" by the Company in its Petition) and (b) principal and interest on the Transition Bonds, together with the costs of paying, refinancing, administering and servicing, credit enhancing and overcollateralizing the Transition Bonds, (deemed the "Ongoing Transition Bond Costs" by the Company in its Petition, with estimates of certain ongoing costs estimated at Exhibit D of the Petition). The Company submits all such aforementioned costs constitute Bondable Stranded Costs, as defined in EDECA, and are recoverable through the TBC or TBC-Tax charges, as appropriate.⁸ In connection with discussions herein of recovery through the TBC or TBC-Tax, all such aforementioned costs shall be referred to as "Bondable Stranded Costs", or as "other Bondable Stranded Costs" where Transition Costs are also specifically mentioned.

The Company states that the amounts to be securitized for recovery through the proceeds of the Transition Bonds in this transaction are approximately \$46.3 million, calculated on a net of tax basis, and are attributable to the Company's Board-approved deferred BGS balance of approximately \$75.2 million (producing \$44.3 million of Transition Costs on a net of tax basis) and upfront transaction costs of approximately \$2 million. Such costs, as well as the other Bondable Stranded Costs, will be recovered through the assessment and collection of the TBC. N.J.S.A. 48:3-62(c) permits the Board to authorize the issuance of Transition Bonds for recovery of up to the full amount of an electric public utility's reasonably and prudently incurred Transition Costs based on the criteria that such amount will produce benefits for customers of the electric public utility which include the lowest transition bond charges consistent with market conditions

⁶ RECO does not project any such transaction costs. (2/15/04 Tr. at 52).

⁷ The Company seeks to recover the grossed up revenue requirement associated with the recovery of the Transition Costs plus transaction costs to be securitized. The Company proposes to separately recover such costs through the separate TBC-Tax charge, as previously required by the Board in securitization transactions.

⁸ As set forth in N.J.S.A. 48:3-51, "Bondable stranded costs" means any stranded costs or basic generation service transition costs of an electric public utility approved by the board for recovery pursuant to the provisions of this act, together with, as approved by the board: (1) the cost of retiring existing debt or equity capital of the electric public utility, including accrued interest, premium and other fees, costs and charges relating thereto, with the proceeds of the financing of bondable transition property; (2) if requested by an electric public utility in its application for a bondable stranded costs rate order, federal, State and local tax liabilities associated with stranded costs recovery or basic generation service transition cost recovery or the transfer or financing of such property or both, including taxes, whose recovery period is modified by the effect of a stranded costs recovery order, a bondable stranded costs rate order or both; and (3) the costs incurred to issue, service or refinance transition bonds, including interest, acquisition or redemption premium, and other financing costs, whether paid upon issuance or over the life of the transition bonds, including, but not limited to, credit enhancements, service charges, overcollateralization, interest rate cap, swap or collar, yield maintenance, maturity guarantee or other hedging agreements, equity investments, operating costs and other related fees, costs and charges, or to assign, sell or otherwise transfer bondable transition property.

and the terms of the bondable stranded costs rate order. N.J.S.A. 48:3-62(g) and 64(a) permit the Board to issue a Financing Order authorizing the issuance of Transition Bonds and approving a TBC to recover Transition Costs and other Bondable Stranded Costs as defined in N.J.S.A. 48:3-51.

In its Panel testimony that updates the Petition, the Company has requested that, pursuant to this Financing Order, the Company be granted authority to recover through the sale of the Bondable Transition Property up to \$47.7 million, calculated on a net of tax basis, that are attributable to the Company's Board-approved deferred BGS balance of approximately \$83.2 million and upfront transaction costs of approximately \$2 million. The deferred BGS balance declines to \$75.2 million after taking into account the projected recoveries during the period August 1, 2003 through July 31, 2004 and an additional \$300,000 reduction agreed to by RECO. Similarly, the Bondable Transition Property declines to \$46.3 million, calculated on a net of tax basis.

The Transition Costs and other Bondable Stranded Costs will be recovered by the SPE (Special Purpose Entity) through the assessment and collection of the TBC, a separate, non-bypassable, usage-based charge assessed and collected from all of the Company's customers and/or the customers of any electric distribution company that succeeds to all or a significant part of the electric distribution business within the Company's service territory as it exists today ("Successor Utility"), subject to N.J.S.A. 48:3-77, which specifies when the TBC may be imposed on power produced by on-site generation facilities.

The Company states that the principal asset supporting the Transition Bonds will be bondable transition property, which is property created by the Act, that includes (a) the irrevocable right to charge, collect, receive and be paid from collections of, the TBC, in the amount necessary to provide for the full recovery of Transition Costs and all other costs determined to be recoverable in this Financing Order, (b) all rights of the Company under this Financing Order, including, without limitation, all rights to obtain periodic adjustments of the TBC pursuant to N.J.S.A. 48:3-64(b) and (c) all revenues, collections, payments, money and proceeds arising under, or with respect to, all of the foregoing. The bondable transition property created by the Act and this Financing Order is herein referred to as the "Bondable Transition Property". For convenience of usage in this Financing Order, there are numerous references to the holding and transfer of the Bondable Transition Property by the Company and others. However, the Bondable Transition Property arises, and constitutes a vested, presently existing property right, only upon (i) its transfer to an assignee and (ii) receipt of consideration therefor. Pursuant to N.J.S.A. 48:3-65, this Financing Order and the TBC are irrevocable upon this Financing Order becoming effective pursuant to N.J.S.A. 48:3-68, and this Financing Order cannot be rescinded, altered, repealed, modified or amended by the Board or any other governmental entity, nor can it be impaired by the State of New Jersey, as pledged by the State of New Jersey in N.J.S.A. 48:3-66.

To implement the Transition Bond Transaction the Company will sell its interest in the Bondable Transition Property to the SPE, a non-utility, bankruptcy-remote special purpose entity, which is a Delaware limited liability company, the equity in which is wholly-owned by the Company, in exchange for the net proceeds received by the SPE from the sale of the Transition Bonds. The Company provided the capitalization for the SPE for the Transition Bond Transaction and will also make a cash capital contribution to the SPE in an amount that will at least equal 0.5% of the aggregate initial principal amount of the Transition Bonds. The capitalization amount for the Transition Bonds will be held in a separate subaccount for the Transition Bonds ("Capital Subaccount") as described in more detail below. The SPE will remit to the Company the

proceeds from the sale of the Transition Bonds, in payment for the Bondable Transition Property.

Under N.J.S.A. 48:3-72, the transfers of the Bondable Transition Property to the SPE will be treated, for bankruptcy purposes, as true sales and absolute transfers to the SPE, notwithstanding: (1) the fact that the Company acts as the collector or servicer of the TBC; (2) the treatment of such transfer as a financing for federal, state or local tax purposes or financial accounting purposes; (3) the capitalization of the SPE by the Company; or (4) the retention or acquisition of any rights listed in N.J.S.A. 48:3-72(a)(4). The SPE is a "financing entity" for purposes of the Act. The Company states that Board approval of the SPE and the Transition Bond Transaction in this Financing Order will constitute a finding that the SPE's activities as described herein will not violate any affiliate relation standards currently in effect or that the Board may adopt in the future.

The Company states that the SPE will issue and sell the Transition Bonds, which will be either fixed or floating rate instruments, under an indenture ("Indenture"), between the SPE and The Bank of New York, as trustee ("Transition Bond Trustee"), and will purchase the Bondable Transition Property from the Company with the net proceeds received from the sale of the Transition Bonds. The SPE will issue and sell the Transition Bonds in a negotiated, fully underwritten public offering as asset-backed securities ("ABS"). According to the Company and Mr. Hiller of Citigroup, all prior securitizations of utility stranded costs in other jurisdictions have been structured as ABS and sold on a negotiated basis and the expertise of an underwriter is critical to the structuring, pricing and marketing of securities in the ABS market. Indeed, in other states where competitive bidding requirements generally exist, such as Massachusetts, competitive bidding of stranded cost securitization transactions either has been waived or has not been required. The Company asserts that a negotiated sale, as opposed to one accomplished through competitive bidding, should result in lower interest costs and will ensure that the Company's customers pay the lowest TBC consistent with market conditions at the time of pricing and the terms of this Financing Order, in compliance with the requirement of N.J.S.A. 48:3-62(b)(4). If the Company sells floating rate instruments, it intends to enter into appropriate hedging arrangements, including interest rate caps, swaps or collars, which will have the effect of creating fixed interest rate obligations for the SPE.

The Company states that the Bondable Transition Property will constitute collateral to secure the Transition Bonds. The Company notes that the other collateral of the SPE ("Other SPE Collateral") will include (without limitation): (i) the rights of the SPE under certain of the Transition Bond Transaction documents, including (a) sale agreements and related bills of sale by which the SPE will acquire the Bondable Transition Property and receives certain indemnification from the Company, (b) a servicing agreement ("Servicing Agreement") by which the Company or any successor in that capacity acts as servicer of the Bondable Transition Property ("Servicer"), and (c) an administration agreement by which the SPE is administered; (ii) various trust accounts of the SPE for the Transition Bonds, including, but not necessarily limited to, the Capital Subaccounts, the over-collateralization subaccounts for the Transition Bonds ("Over-collateralization Subaccount"), the reserve subaccounts for the Transition Bonds ("Reserve Subaccount"), the series subaccounts for the Transition Bonds ("Series Subaccount"), under which the Capital Subaccount, the Over-collateralization Subaccount and the Reserve Subaccount will be established for the specific series; (iii) the collection account for all series of Transition Bonds ("Collection Account"), under which will be established the foregoing accounts (as well as similar accounts for any other series of Transition Bonds later issued by the SPE) and the general subaccount for all series of Transition Bonds ("General Subaccount"); (iv) any investment earnings on amounts held by the Transition Bond Trustee,

other than investment earnings released to the SPE or to counterparties under swap agreements, if any, in accordance with the Indenture.

The Company requests, in accordance with N.J.S.A. 48:3-62, that the Board approve Transition Bonds with scheduled amortizations upon issuance not exceeding 15 years from the date of issuance. The Company also requests that the Board approve stated maturities of up to three years beyond the expected final scheduled maturity date of each class of Transition Bonds in order to minimize over-collateralization requirements and enhance the prospects of securing the highest possible credit rating for the Transition Bonds.

b. Recovery of Upfront Transaction Costs

In order to issue Transition Bonds to achieve net savings for the benefit of its customers, the Company will incur Upfront Transaction Costs. Based on the currently estimated initial offering of \$46.3 million of Transition Bonds, the Company has estimated that such amount will include Upfront Transaction Costs of approximately \$2 million which may vary, in part, based on the factors described below. The Company states that these Upfront Transaction Costs will include, among other items, the underwriting fee, rating agency fees, financial advisory fees, accounting fees, Securities and Exchange Commission ("SEC") registration fees, printing and marketing expenses, trustees' fees, legal fees, and servicing set-up fees. A breakdown of the estimate is provided at RECO-2, Ex. G. The Company has requested authority to recover the Upfront Transaction Costs from the proceeds of the sale of the Transition Bonds and to include such costs as Bondable Stranded Costs so that the right to recover such amounts will constitute a portion of the Bondable Transition Property. The Company indicates that to the extent payment of any Upfront Transaction Costs is required prior to the issuance of the Transition Bonds, the Company will pay such costs and then will be reimbursed from the proceeds of the Transition Bonds.

c. Recovery of Transition Costs and other Bondable Stranded Costs

The Petition requested approval of the recovery of Transition Costs and other Bondable Stranded Costs through the TBC consistent with N.J.S.A. 48:3-51, 62 and 64. The Company states that the primary ongoing Bondable Stranded Costs to be recovered through the TBC are the periodic payments of principal and interest on all of the outstanding Transition Bonds (including past due and deferred amounts, if any), and that other Bondable Stranded Costs principally include the annual servicing fee of 0.125% of the initial principal amount of all series of Transition Bonds that the SPE will issue ("Servicing Fee") payable monthly in 12 equal amounts to the Company, in its capacity as the Servicer (as defined below), or such higher fee as may be payable to a successor Servicer (in an amount of up to 1.25% of the initial principal balance of all series of Transition Bonds that the SPE has issued), the ongoing cost of credit enhancement and the costs of over-collateralization. The Company states that there also will be a small amount of additional, ongoing costs associated with the Transition Bond Transaction, such as legal and accounting fees, directors' or managers' fees, rating agency fees, trustees' fees and other costs of operating the SPE. The Company states that these costs should also be included as Bondable Stranded Costs to be recovered through the TBC in accordance with N.J.S.A. 48:3-62 and 64. The right to recover the costs discussed in this Section 2(c) of the Financing Order through the TBC as Bondable Stranded Costs will constitute a portion of the Bondable Transition Property.

d. *Approval of Final Terms and Conditions: Transition Bond Transaction*

The Company states that upon the pricing of the Transition Bonds, it will cooperate with and provide such information to the Board's Designee as is reasonably requested in order that the Designee may make the certifications required below. To assist the Designee in making his or her required certifications, upon the pricing of the Transition Bonds, the Company will file with the Board's Designee a Pricing Advice Certificate, substantially in the form of Appendix D hereto. This document may be based in part on the advice of the Company's lead underwriter and will certify in substance that the structure and pricing of the Transition Bonds (including any hedging arrangement priced at the time of the pricing of the Transition Bonds as described below) assures that the Company's customers pay the lowest TBC consistent with then current market conditions and the terms of this Financing Order.

The Company also states that prior to the approval by the Board's Designee of pricing of the Transition Bonds (including any hedging arrangement priced at the time of the pricing of the Transition Bonds), the Company's lead underwriter will provide a certificate substantially in the form of Appendix G hereto to the effect that, in its judgment and subject to the assumptions, qualifications and limitations contained therein, the structuring and pricing of the Transition Bonds (and any such hedging arrangement priced at the time of pricing) is reasonable in the light of then current market conditions and the terms of this Financing Order and will result in customers of the Company paying the lowest TBC consistent with then current market conditions and the terms of this Financing Order. Upon the filing of the Pricing Advice Certificate (at the time of the pricing of the Transition Bonds and any such hedging arrangement), the Company requests that the Board's Designee file with the Board a certificate ("Designee Certification") substantially in the form of Appendix A hereto, (i) approving the pricing and the terms and conditions of the Transition Bonds (and any hedging arrangement), including (a) scheduled amortization upon issuance not exceeding 15 years from the date of issuance for the Transition Bonds the proceeds of which will be used to reduce Transition Costs related to the BGS deferred BGS balance, and (b) stated maturities of up to three years beyond the expected final scheduled maturity date of each class of Transition Bonds and (ii) stating that the structure and pricing of the Transition Bonds assures that the Company's customers pay the lowest TBC consistent with market conditions and the terms of this Financing Order. The Designee Certification will represent the Designee's final and irrevocable approval of the pricing of the Transition Bonds (including any hedging arrangement priced at the time of pricing the Transition Bonds, as described below) and the terms and conditions of the Transition Bond Transaction. The Company states that such terms and conditions, including the expected principal amortization schedule ("Expected Amortization Schedule"), will be fixed based on such approved pricing, and will include scheduled amortizations upon issuance not exceeding 15 years from the date of issuance for the Transition Bonds the proceeds of which will be used to reduce Transition Costs, and such longer legal maturities as are required to obtain the highest possible credit rating on the Transition Bonds (up to three years beyond the expected final scheduled maturity date of each class of Transition Bonds). Payments on the Transition Bonds will be made quarterly. Exhibit B hereto contains forecasted principal and interest payments for each year during which the Transition Bonds are expected to be outstanding based upon the forecasted level of the Transition Bonds to be issued. The final Expected Amortization Schedule may be altered as a result of market conditions or rating agency requirements, and will be subject to the Designee's Guidelines contained in Appendix F hereto. The associated MTC-Tax collections may be adjusted from time to time to reflect the changing principal and interest components of the Transition Bond debt service.

If the structure, pricing, terms and conditions meet the requirements discussed above, the Company will be authorized under this Financing Order to undertake the Transition Bond Transaction. Prior to the pricing of the Transition Bonds, the Designee may obtain from the Board's financial advisor, Bear, Stearns & Co. ("Financial Advisor"), recent secondary market trading levels of existing utility stranded cost securitization bonds, to the extent such information is available through public sources. To the extent such information is available, the Company anticipates that such information may, in part, be considered in connection with the pricing of the Transition Bonds. Finally, the Company has invited the Designee, the Board's Staff and Financial Advisor, and the Division of the Ratepayer Advocate to be present at pricing, either in person or by telephone.

The Company states that one or more classes of the Transition Bonds may be issued as variable rate instruments under which the SPE will pay a fixed interest rate through the execution of an interest rate exchange agreement, an interest rate cap agreement or similar hedging arrangement. If, at the time of pricing of the Transition Bonds, the Company and its lead underwriter determine that such a hedging arrangement is expected to result in a lower interest cost on such classes of bonds or on all classes of the issue taken as a whole, the hedging arrangement will be competitively bid, will be described in the Pricing Advice Certificate (see Appendix D hereto) and the Company's lead underwriter will provide a certificate as to its reasonableness in accordance with Appendix G hereto, after which the arrangement will be subject to approval by the Designee in the Designee Certification. Any counterparty to such a hedging arrangement must have a credit rating consistent with achieving the highest possible ratings on the Transition Bonds.

The Company states that not later than five business days after the issuance and sale of the Transition Bonds, the Company will confirm to the Board, in an "Issuance Advice Letter," substantially in the form of Appendix B hereto, the actual interest rates (or formula for determining variable interest rates) on the Transition Bonds, the Expected Amortization Schedule, the Required Over-collateralization Schedule (as defined in Section 2(f) below) and the revised TBC and TBC-Tax, which will be calculated using the methodology approved hereby and described in Appendix C hereto. At such time, the Company also will file revised tariff sheets with the Board setting forth the TBC and TBC-Tax to go into effect following the issuance of the Transition Bonds (which amount will include a component with respect to the Transition Bonds). The revised TBC and TBC-Tax and related revised tariff sheets will become effective the same day the Company files the Issuance Advice Letter and the revised tariff sheets, without further action by the Board.

e. TBC

In accordance with N.J.S.A. 48:3-67, the Company states the TBC will apply equally to each customer of the Company, regardless of class, based on the amount of electricity delivered to each customer through the transmission and distribution system of the Company or any Successor Utility within the Company's service territory as it exists today, subject to N.J.S.A. 48:3-77, which specifies when the TBC may be imposed upon power produced by on-site generation facilities. Pursuant to N.J.S.A. 48:3-64(b) of the Act, the Company states that the TBC will be adjusted from time to time, in accordance with the methodology approved in this Financing Order, to ensure that it is set at a level intended to recover the Transition Costs, including, without limitation: (1) the principal of (determined in accordance with the Expected Amortization Schedule as detailed in the Issuance Advice Letter), and interest on, the Transition Bonds authorized by the Board in this Financing Order; (2) the costs of operating and administering the SPE; (3) the costs of servicing the Transition Bonds, including servicing and

trustee fees, expenses and indemnities, substantially as described in the prospectus of the SPE relating to the offering of Transition Bonds, that will be filed with the SEC (the "SEC Filing"); (4) amounts required to fund or replenish the Over-collateralization Subaccounts in accordance with the over-collateralization schedule ("Required Over-collateralization Schedule"), or to fund or replenish any similar account which provides credit enhancement for the Transition Bonds, all as confirmed, with respect to the Transition Bonds, in the Issuance Advice Letter; (5) the reimbursement of any amounts drawn from the Capital Subaccounts pursuant to the Indenture, substantially as will be described in the SEC Filing, or the reimbursement of any drawn amounts from any similar account which provides credit enhancement for the Transition Bonds; and (6) the ongoing expenses, if any, of other credit enhancement arrangements.

In Appendix C (i.e., revised Exhibit F-3 to the Petition), the Company sets forth the general methodology by which it proposes to adjust from time to time the TBC and the TBC-Tax. The Company states that the TBC and the TBC-Tax will be set and adjusted based on assumptions described in Appendix C, as those assumptions are adjusted from time to time based on various factors including, but not limited to, energy sales forecasts, customer payment and charge-off patterns, defaults by third party suppliers (as described herein), the Bondable Stranded Costs (including unpaid amounts from prior periods and replenishment of credit enhancement, if applicable) and, with respect to the TBC-Tax, the applicable income tax rates in effect from time to time. In Exhibit B (i.e., revised Exhibits F-1 and F-2 to the Petition) hereto, the Company has projected the TBC and the TBC-Tax to go initially into effect following the issuance of the Transition Bonds using the methodology described in Appendix C and assuming the Bondable Stranded Costs as described herein.

In accordance with N.J.S.A. 48:3-64(c), the Company requests that the TBC remain in effect until the Bondable Stranded Costs have been paid in full and all other obligations and undertakings with respect thereto have been satisfied fully.

The Company states that each customer's monthly bill will reflect, either explicitly, or through a notation, that a portion of the charges on such bill represents amounts being collected on behalf of the SPE as owner of the Bondable Transition Property.

f. Periodic Adjustments to the TBC and TBC-Tax

N.J.S.A. 48:3-64(b) requires that this Financing Order provide for mandatory periodic adjustments (each, a "TBC True-Up") to be made by the Board at least annually upon petition of the Company, its assignee or a financing entity, to ensure ongoing receipt of revenues sufficient to provide for recovery of Bondable Stranded Costs, including without limitation payment of principal and interest on the Transition Bonds (including unpaid amounts from prior periods and replenishment of credit enhancements, if applicable) by the payment dates designated by the Company, as Servicer, in its TBC True-Up filing, such that the Transition Bonds will be retired in accordance with the Expected Amortization Schedule. Each TBC True-Up must be formula-based, and the Company intends to use the formula-based methodology described in Appendix C hereto. As Servicer, the Company states that it is responsible for filing with the Board documentation for any TBC True-Up.

Although the Company, as Servicer, will file for TBC True-Ups at least annually, the Company has requested authorization to file for adjustments of the TBC as often as monthly or quarterly, as may be determined from time to time in the future to be necessary to maintain the highest possible credit rating (all as set forth in the Servicing Agreement). Under N.J.S.A. 48:3-64(b), the Servicer shall propose such TBC True-Up in a filing with the Secretary of the Board at least

30 days in advance of the date upon which it is requested to be effective. The TBC True-Up shall become effective on an interim basis on the date on which it is requested to be effective, in the absence of a Board Order to the contrary. Under N.J.S.A. 48:3-64(b), in the absence of a Board order to the contrary, the periodic adjustment shall become final and non-appealable 60 days after the filing. The Company has requested that TBC True-ups go into effect at least annually, and that the Board confirm that the TBC True-Up will become effective or final, as the case may be, absent a finding by the Board of manifest error (for purposes of this Financing Order, "manifest error" is an arithmetic error evident on the face of such filing) in the application of the adjustment methodology approved herein. In the event of a finding of manifest error, the rate to be made effective will be the arithmetically corrected rate or, in the absence of agreement on the arithmetically corrected rate, the rate in effect for the prior period will remain in effect until the arithmetically corrected rate is made effective. The Company asserts that this standard for effectiveness is consistent with the other provisions of N.J.S.A. 48:3-64(b) that require that the TBC True-Up be implemented to ensure "timely payment" of, among other things, principal of, and interest and acquisition or redemption premium on, the Transition Bonds. The Company further asserts that in order to achieve the highest possible credit ratings on the Transition Bonds and, thus, to reduce costs to customers, the TBC True-Ups must be made final and non-appealable based upon this objective standard.

The Company will be entitled to request, and the Board will approve, mandatory periodic adjustments of the TBC-Tax (each, a "TBC-Tax True-Up"). Each TBC-Tax True-Up will be made at least annually to reconcile the income tax recovered to the income taxes required to be assessed to the Company on the taxable net revenue from the TBC and TBC-Tax. The reconciliation will be made in the same manner and at the same time as the TBC True-Up to ensure receipt of revenues sufficient to assure recovery of the TBC-Tax. Upon petition of the Company, the TBC-Tax will be adjusted based upon assumptions described in Appendix C hereto, as those assumptions are adjusted from time to time in accordance with such Appendix C. No delay in the TBC-Tax True-Up will influence or affect the TBC True-Up.

The Company also requests that the Board grant the Company authority to make "non-routine" adjustments to the TBC and the TBC-Tax. Such filings for non-routine adjustments would be made to accommodate material changes to the methodology described in Appendix C hereto. Any such filing must be made at least 90 days prior to the proposed effective date, and will be subject to Board approval before implementation.

g. *Remittance of TBC Collections*

At the beginning of each year, projected TBC and TBC-Tax revenue will be multiplied by collection curves to produce Estimated Collections. These estimated collections will be used in setting the TBC and TBC-Tax rates. At the end of each month, actual billed TBC and TBC-Tax revenue will be multiplied by the collection curves to produce Actual Collections. Such Actual Collections will be remitted to the Servicer each month. At the end of the year, Actual Collections will be compared to payments of principal and interest on the Transition Bonds (including unpaid amounts from prior periods and replenishment of credit enhancements, if applicable) during the annual reconciliation process. The Estimated Collections (and resulting TBC and TBC-Tax rates) for the following year will be adjusted, as necessary, based upon this reconciliation. The collection curve compares actual amounts billed to actual payments received over various time periods (e.g., 30, 60, 90 days) and will be updated at least annually (as part of the annual reconciliation process). There will be a separate collection curve for each rate class.

The Company states that the amounts remitted by the Servicer to the Transition Bond Trustee ("Deemed TBC Collections") will be retained by the Transition Bond Trustee until it pays to the appropriate parties all periodically required Transition Costs, including scheduled principal and interest payments, Servicing Fees, other fees and expenses, any unpaid amounts from prior payment dates related to the aforementioned and any required additions to or replenishments of the Collection Account. The Company expects that monthly disbursements, in amounts to be specified in the Indenture, will be made to the Transition Bond Trustee, to the independent managers of the SPE, to the Servicer, to the administrator of the SPE and in respect of operating expenses. In addition, payments of principal and interest on both series of Transition Bonds (as well as payments of the aforementioned amounts) will be made on a quarterly basis. The Transition Bond Trustee will hold all Deemed TBC Collections received from the Servicer from the remittance date to the dates on which such payments are made in the General Subaccount of the Collection Account. The Transition Bond Trustee will invest the funds in the Collection Account in securities that mature on or before the next scheduled distribution date, in accordance with rating agency criteria for investment of such funds.

The Company states that investment earnings on funds in the Collection Account held by the Transition Bond Trustee may be used to satisfy currently scheduled interest and principal payments on the Transition Bonds and other Transition Costs. Additionally, such investment earnings may be used to restore Capital Subaccounts amounts previously withdrawn therefrom to meet periodically required Ongoing Transition Bond Costs and may be applied to meet the Required Over-collateralization Schedule. Investment earnings on funds in the Collection Account in excess of the amount applied as described above will be held in the Reserve Subaccounts, except for such investment earnings in the Capital Subaccounts, which will be distributed to the SPE as provided in the Indenture and Series Supplements.

Upon retirement of all outstanding Transition Bonds of either series, including payment of all interest thereon, and the payment of all Transition Costs, and any bondable stranded costs relating to the Company and the SPE that may be approved in favor of the Company under the Act pursuant to any subsequent financing orders, the Company states that any remaining amounts held by the Transition Bond Trustee in subaccounts relating to the series to be retired will be released to the SPE and ultimately returned to the Company as an equity distribution or, if required under the series indenture supplement related to a subsequently issued series of Transition Bonds of the SPE, be reallocated to the subaccounts of such series; provided, however, that upon retirement of all outstanding Transition Bonds of the SPE, including payment of all interest thereon, and the payment of all related bondable stranded costs, any remaining amounts held by the Transition Bond Trustee will be released to the SPE and ultimately returned to the Company as an equity distribution. The Company will credit, against the delivery charges it bills to its customers, any amounts so received from the SPE that exceed the sum of (i) the aggregate amount of its equity contributions to the SPE and (ii) the investment earnings on funds in the capital subaccounts for all series of Transition Bonds, less the amount of any unpaid MTC-Tax charges and any amount that was withdrawn and not replenished to the SPE's equity.

h. Credit Enhancement

The Transition Bond documents will provide for the TBC True-Up as is authorized by N.J.S.A. 48:3-64(b) as described above and for over-collateralization amounts as described below or other means of credit enhancement as required by the rating agencies.

The Company explains that a portion of the TBC will be applied to an "over-collateralization amount" which will be deposited into the Over-collateralization Subaccount to meet the Required Over-collateralization Schedule. The Company states that the collection of the over-collateralization amount will be in addition to the collection of the principal (which will be collected in accordance with the Expected Amortization Schedule) and interest payable on the Transition Bonds, and the collection of any other bondable Stranded Costs, all of which will be recovered through the TBC. The total over-collateralization requirement will be determined prior to the pricing of the Transition Bonds but will in no event be less than 0.5% of the initial Transition Bond principal amount. The total over-collateralization amount will be determined by the Company based on criteria from the rating agencies, and will be reflected in the Issuance Advice Letter and will be subject to the approval of the Designee. It is possible that the rating agencies may require additional credit enhancement, the terms of which will be set forth in the Pricing Advice Certificate and subject to the Designee Guidelines.

All collection shortfall amounts relating to the TBC and amounts expected to become due and payable during the next succeeding period for which the TBC is in effect, including over-collateralization amounts, and any shortfall amounts arising from defaults relating to a third party electric power supplier (an "EPS") will be incorporated into each TBC True-Up to the extent necessary.

i. Formation of SPE

The SPE, a Delaware limited liability company, will be a direct, wholly-owned, non-utility subsidiary of the Company, which is managed pursuant to the administration agreement substantially as will be described in the SEC Filing.

j. Bondable Transition Property

Under N.J.S.A. 48:3-51, the Bondable Transition Property includes (a) the irrevocable right to charge, collect and receive, and be paid from collections of, the TBC, in the amount necessary to provide for the full recovery of the Transition Costs and all other Bondable Stranded costs whose recovery is authorized in this Financing Order, (b) all rights of the Company under this Financing Order, including, without limitation, all rights to obtain periodic adjustments of the TBC pursuant to N.J.S.A. 48:3-64(b) and (c) all revenues, collections, payments, money and proceeds arising under, or with respect to, all of the foregoing.

Pursuant to N.J.S.A. 48:3-65 and N.J.S.A. 48:3-71, when the Company has transferred, and received consideration for, the Bondable Transition Property from the SPE, the Bondable Transition Property will constitute a vested, presently existing property right and will exist continuously as property for all purposes as provided in the Act and this Financing Order, whether or not the revenues and proceeds arising with respect thereto have accrued and notwithstanding the fact that the value of the property right may depend upon consumers using electricity or the Servicer performing services; and the validity of any sale, assignment or other transfer of the Bondable Transition Property will not be defeated or adversely affected by the commingling by the Company of revenues recovered or payments arising from amounts billed, collected and received on account of the Bondable Transition Property with other funds of the Company.

k. Sale of Bondable Transition Property to SPE

The Company requests the Board to approve the transfer by the Company of the Bondable Transition Property to the SPE in one or more transactions which, in accordance with N.J.S.A. 48:3-72, will be treated as a true sale and absolute transfer to the SPE, even though such transactions may be treated as a financing, and not a sale, for federal and state tax purposes, for financial accounting purposes or for other purposes and even though the Company is the collector or servicer of the TBC. The Company explains that the SPE will have all of the statutory rights inherent in the Bondable Transition Property, including, without limitation, the right to exercise, through the Company or any Successor Utility, any and all rights and remedies to collect any amounts payable by any customer of the Company in respect of the Bondable Transition Property, which includes the right to direct the Company or any Successor Utility to discontinue electric power supply to a particular customer to the extent permitted in accordance with law and any applicable regulations. The SPE and other third parties, however, will not have any right to exercise any direct control over the distribution and transmission system of the Company. Any direction to the Company or any Successor Utility to shut off the electric power supply to a customer would be subject to Board policies and procedures and any applicable laws then in effect.

The Company notes that the agreements which will govern transfer of the Bondable Transition Property to the SPE may include representations and warranties with respect to, among other things, the validity of this Financing Order, the Bondable Transition Property and the title thereto, and may provide specific covenants, indemnities and/or repurchase obligations in connection with such transfer for the benefit of the holders of Transition Bonds.

l. Issuance of Transition Bonds

The Company requests that the Board approve the issuance of Transition Bonds by the SPE and to allow the Transition Bonds to be issued in series and classes with different terms. The Company states that the Transition Bonds will, by their terms, permit the holders thereof to have recourse only to the SPE's credit and assets, and will be secured by a pledge to the Transition Bond Trustee of all of the right, title and interest of the SPE in the Bondable Transition Property and Other SPE Collateral.

m. Non-bypassable TBC and -Tax

Under N.J.S.A. 48:3-67, the TBC and the TBC-Tax are non-bypassable and will be assessed against and collected from all customers of the Company or any Successor Utility until all Bondable Stranded Costs determined to be recoverable in this Financing Order are paid in full, even past legal maturity, subject to N.J.S.A. 48:3-77. The TBC will apply equally to each customer, regardless of class, based on the amount of electricity delivered to the customer through the transmission and distribution system of the Company or any Successor Utility. With respect to on-site generation, N.J.S.A. 48:3-77(b) provides that the TBC will not be imposed on the electricity sold solely to the on-site customer of an on-site generator. N.J.S.A. 48:3-77(c), however, provides that the TBC shall be imposed on the generation from on-site generation facilities to the extent that on-site generation has displaced customer purchases from an electric public utility by an amount such that the kilowatt hours distributed by the electric public utility have been reduced to an amount equal to 92.5 percent of the 1999 kilowatt hours distributed by the electric public utility.

n. Electric Power Suppliers

The Transition Bond Transaction anticipates that the Company, in its capacity as Servicer, will have sole responsibility for the billing, collection and remittance of the TBC and the TBC-Tax. The Company states that there is the possibility, however, that a third-party electric power supplier ("EPS") may, in the future, seek to assume such role. Permitting an EPS to bill, collect and remit the TBC and the TBC-Tax in place of the Company may increase the risk of shortfalls in TBC collections or TBC-Tax collections by exposing the cash flow to potential interruption due to the default, bankruptcy or insolvency of the EPS. This potential interruption will increase risks to investors, and may result in an increase to the required credit enhancement for, and/or a reduction of the credit rating of, and/or an increase in the interest rate on, the Transition Bonds. Additionally, such EPS billing may necessitate an increase to the TBC or to the TBC-Tax if EPS billing causes interruption or delay in payment to the Servicer.

In order to mitigate these risks, satisfy rating agency requirements and reduce the cost to customers, the Company requests that any EPS the Board authorizes to bill, collect and remit the TBC be required to comply with the billing, collection and remittance procedures and information access requirements set forth below. These procedures and requirements are comparable to those in effect in this and other states in which utilities have securitized their stranded costs, and consistent with procedures approved by the Board with respect to prior securitizations. These requirements are largely derived from rating agencies' criteria.

As set forth in Exhibit G to its Petition (RECO-1), the Company requests that the Board authorize an EPS to bill and collect the TBC and associated TBC-Tax with respect to power sold by it, for remittance to the Servicer, only if (i) such EPS agrees to remit the full amount of all charges it bills to customers for services provided by the Company, together with amounts related to the TBC and the TBC-Tax, regardless of whether payments are received from such customers, within 15 days of the Company's (or any successor Servicer's) bill for such charges; (ii) such EPS agrees to provide the Servicer (or any successor Servicer) with total monthly kWh usage information for each customer in a timely manner to enable the Servicer (or such successor) to fulfill its obligations, because such information is the basis for assessing the required level of such remittances; and (iii) the Servicer (or any successor Servicer) is entitled, seven days after a default by the EPS in remitting any charges payable to it, including amounts related to the TBC and the TBC-Tax, to assume responsibility for billing all charges for services provided by it, including the TBC and the TBC-Tax, or to transfer such billing responsibility to a qualifying third party. In addition, if and so long as the billing EPS does not maintain at least a "Baa2" and "BBB" (or the equivalent) long-term unsecured credit rating from Moody's Investors Service and Standard & Poor's, respectively, such EPS would be required to maintain with the Servicer (or any successor Servicer) a cash deposit or comparable security equal to two months' maximum estimated collections of all charges payable to the Servicer (or such successor), including amounts related to the TBC and the TBC-Tax, as must be agreed upon by the Servicer (or such successor) and the EPS. In the event of a default in the remittance of any such amounts by an EPS, any shortfall in TBC Collections or TBC-Tax collections by an EPS not recovered from a withdrawal from such cash deposit or security would be included in the TBC True-Up and the TBC-Tax True-Up as described in Appendix C hereto.

o. Servicing

The Company states that, pursuant to N.J.S.A. 48:3-71, it will enter into a Servicing Agreement with the SPE pursuant to which the Company has agreed to provide servicing functions on behalf of the SPE with respect to the Bondable Transition Property. Details regarding the

Servicing Agreement, including servicing compensation, are substantially as described in the Petition (at para. 54-59) and will be described in the SEC Filing. The Company states that under the Servicing Agreement, the Servicer is to receive an annual servicing fee equal to 0.125% of the aggregate initial principal amount of the Transition Bonds (the "Servicing Fee"). The Company also requests that the Board approve a higher annual Servicing Fee of any successor Servicer of up to 1.25% of the initial principal balance of all Transition Bonds that the SPE has issued.

p. Tax Recoveries – Accounting and Related Issues

The Company will recover the federal income taxes and state corporation business taxes associated with the collection of the TBC and the TBC-Tax through the ongoing collection of the TBC-Tax, until the SPE has received full payment of principal of and interest on the Transition Bonds. The TBC-Tax will be collected over essentially the same period as the TBC. The TBC-Tax will be subject to mandatory periodic adjustment (at the same time and in the same manner as the TBC) to reconcile the TBC-Tax collections with the income tax required to be assessed on the taxable revenue from the TBC and the TBC-Tax. The Company will maintain separate accounting for the TBC-Tax collections and the Bondable Transition Property. As provided in N.J.S.A. 48:3-72(a)(4), the Company's retention of the TBC-Tax until remittance to the appropriate taxing authority will in no way affect or impair treatment of the transfers of the Bondable Transition Property to the SPE as true sales and absolute transfers for bankruptcy purposes, or otherwise affect the legal rights and attributes of the Bondable Transition Property under the Act.

3. CUSTOMER BENEFITS

The Company panel testimony identifies several customer benefits, as discussed in Section 1 above. As discussed above, the Company has identified that the level of rates in the TBC charges resulting from securitization (with its longer recovery period and expected low interest rates on the Transition Bonds) will constitute a reduction from current interim rate levels, and also would be lower than rate levels implemented to provide recovery over the same period at the Company's cost of capital as the carrying charge or an alternative short term recovery addressed by the Company. RECO-2 at 13-14. The Company calculations (RECO-2, Ex. F) show rate impacts in connection with securitization that are below any of the alternatives compared by the Company. Next, the Company represents that, as proposed, the Transition Bond Transaction will result in net present value savings over the term of the Transition Bonds versus certain recovery alternatives the Company considers appropriate. NPV savings from securitization are currently estimated by the Company to be approximately \$2 million based on projected interest rates at the time of the testimony filing compared to a four year alternative recovery scenario supported by the Company, or \$13.9 million when compared to 15 year recovery without securitization assuming carrying costs at the Company's overall cost of capital. The Ratepayer Advocate's position is that the Transition Bond Transaction will not result in net present value savings over the term of the Transition Bonds based on its witness' comparison of the securitization to recovery over 15 years at an imputed carrying cost of 60 basis point above the 7 year treasury rate. The Company states that the actual net present value savings resulting from the Transition Bond Transaction will depend upon the actual amount of Transition Bonds issued, market conditions at the time of the pricing of the Transition Bonds (and any hedging arrangement) and the actual amount of bondable stranded costs whose recovery is authorized in this Financing Order. In its Issuance Advice Letter to be filed with the Board not later than five business days after the issuance and sale of the Transition Bonds, the Company will present a calculation of the expected net present value savings resulting from the actual

terms of the Transition Bonds, using the methodology described in Appendix C hereto. The Company also asserts that the transaction will provide the required statutory benefit of the lowest transition bond charges consistent with market conditions, given the structure of the transaction and its advisors experience in optimizing investor response and pricing. Further, the Company notes that the structure, pricing, terms and conditions of the Transition Bonds (and any hedging arrangement) will be subject to approval by the Designee pursuant to the delegation of authority in this Financing Order, to confirm that the TBC will be the lowest level consistent with market conditions.

4. USE OF PROCEEDS

The Company states that the SPE will remit the proceeds from the sale of the Transition Bonds, net of underwriting discount, to the Company in consideration of the Company's transfer of its Bondable Transition Property to the SPE. In accordance with N.J.S.A. 48:3-62, the Company will use such proceeds to reduce Transition Costs through the refinancing of debt, equity, or both, as permitted by the Act. Potential uses include the use of funds as a substitute for additional debt issuance, and a return to RECO's previous level of dividends of equity capital, which had been suspended. (2/5/04 Tr. at 52-53)

5. FINDINGS WITH RESPECT TO THE PETITION

Based on the record of proceedings in this matter and those related to the Restructuring Order, the Petition and the provisions of the Act and the Restructuring Order, the Board HEREBY FINDS:

Recovery of Costs

- (1) The costs reflected in the deferred BGS balance that RECO seeks to recover through the proceeds of Transition Bonds constitute Basic Generation Service Transition Costs as defined in EDECA, as amended. The costs reflected in the Company's deferred BGS balance of approximately \$75.2 million, or of approximately \$44.3 million calculated on a net of tax basis, were reasonably and prudently incurred Transition Costs, as set forth in the Board's Summary Order-Rates and consistent with the Larkin Phase 2 Report. The Company is authorized to recover the full amount of its Transition Costs described in this Paragraph 1 through the Transition Bonds.
- (2) Transition bonds in the amount of approximately \$46.3 million may be issued by the Company or its financing entity to provide the Company recovery of bondable stranded costs consisting of approximately \$44.3 million of Transition Costs as discussed in paragraph 1 above as well as approximately \$2 million of Upfront Transaction Costs.
- (3) The Bondable Stranded Costs associated with the Transition Bonds (including ongoing principal and interest on the bonds and other Bondable Stranded Costs discussed in this Financing Order) shall be recovered through the non-bypassable TBC. The recovery of the federal income and applicable state corporation business taxes related to securitization and collection of the TBC, however, shall be recovered through a separate TBC-Tax Component until the Transition Bonds and Bondable

Stranded Costs have been paid in full, and the TBC-Tax charge shall be adjusted at the same time and in the same manner as the TBC is adjusted as addressed in this order.

Tangible Benefits

- (4) In accordance with N.J.S.A. 48:3-62 (b)(4), we find the issuance of the Transition Bonds will provide benefits to customers, including the lowest transition bond charges consistent with market conditions and the terms of this Financing Order. Benefits will also include lower rates than currently are assessed even at interim recovery levels (and rates lower than would have been achieved in certain alternative recovery scenarios in the absence of the issuance of the Transition Bonds.) This rate mitigation benefit results from a combination of a longer term of recovery and the reduced financing costs with securitization. In addition, we are confident the Company shall exercise, and we order it to exercise, its best efforts to achieve the lowest TBC consistent with market conditions, the terms of this Financing Order and the Designee Guidelines, and the Designee will confirm that the lowest TBC consistent with market conditions has been achieved. These benefits have not been contested. In addition, the Company has calculated a range of and net present value savings to customers over the term of the Transition Bonds. While the Ratepayer Advocate concedes net present value savings exist if certain comparisons with alternatives (and carrying charges) used by the Company were employed by the Board, it suggests there are no benefits if the Board imputes a low cost debt rate carrying charge over a 15 year recovery without securitization. The interest rate suggested by the Ratepayer Advocate, however, was approved by the Board for use only during the Transition Period and not for use as the carrying charge on any final long term recovery to be used in this proceeding. Finally, the Company has offered testimony regarding the substantial proportion the deferred BGS balance asset bears to its overall utility assets, and that securitization would assist it in strengthening its capital structure and providing the ability to finance more economically necessary infrastructure investment. Thus, on the specific record and in view of the unique circumstances of this proceeding, we find benefits for customers will be produced from approval of the securitization transaction and issuance of Transition Bonds in the proposed amount. This finding shall not be precedential in any other proceeding.
- (5) Exhibit B hereto contains forecasted principal and interest payments each year in the Transition Bond Transaction based upon the forecasted level of the Transition Bonds to be issued. The final Expected Amortization Schedule may be altered as a result of market conditions or rating agency requirements, subject to the approval of the Designee. The methodology used to calculate the TBC, the TBC True-Up, the TBC-Tax and the TBC-Tax True-Up as described in Exhibit C of the Petition are reasonable and adherence thereto will provide assurance that customers will pay the lowest TBC consistent with market conditions and the terms of this Financing Order, in compliance with N.J.S.A. 48:3-62(b)(4). The standard for the Board to use in making TBC True-Ups final is the absence of a manifest error (i.e., an arithmetic error evident on the face of the filing) in

the application of the TBC True-Up methodology, which standard the Board finds consistent with N.J.S.A. 48:3-64(b) of the Act and the achievement of the lowest TBC consistent with market conditions at the time of pricing and the terms of this Financing Order. The estimate of the revised TBC after giving effect to the Transition Bond Transaction, determined in accordance with Appendix C attached hereto, is reasonable. The request of the Company that it be authorized to make non-routine adjustments to the TBC and the TBC-Tax as described in Section 2(f) hereof, subject to Board approval, is reasonable.

Structuring and Pricing; Hedging Arrangements

- (6) The procedures established in this Financing Order relating to the final approval of the structuring and pricing of the Transition Bonds (including any hedging arrangements priced at the time of the pricing of the Transition Bonds) assure that, in accordance with N.J.S.A. 48:3-62(b)(4), the Company's customers will pay the lowest TBC consistent with market conditions and the terms of this Financing Order. As authorized herein by the Board and in full satisfaction of the requirements of N.J.S.A. 48:3-62(b)(4) and N.J.S.A. 48:3-64(a)(3) of the Act, the structuring and pricing of the Transition Bonds (including any such hedging arrangement) will be deemed conclusively to satisfy the requirements of N.J.S.A. 48:3-62(b)(4), and the terms and conditions of the Transition Bond Transaction shall be conclusively approved, if so certified by the Designee upon the pricing of the Transition Bonds and any such hedging arrangement.
- (7) The methodology for the determination of the TBC proposed by the Company in Appendix C hereto is reasonable. The assumptions the Company made in such Appendix C are reasonable. The Company's proposed methodologies for the mathematical calculation of the TBC are reasonable.
- (8) The formation of the SPE by the Company, the capitalization of the SPE by the Company, the transfer by the Company to the SPE of its Bondable Transition Property, the providing of over-collateralization as described herein and as approved in the Designee Certification, the hedging arrangements and the entering into a servicing agreement, an administration agreement, a sale agreement and other agreements and transactions by the Company and the SPE, all substantially as described in the Petition and as will be described in the SEC Filing and the hedging arrangements as described herein and in Appendix F hereto, are reasonable and necessary.
- (9) The lien of the Transition Bond Trustee on the Bondable Transition Property shall: (a) attach automatically to such Bondable Transition Property from the time of the issuance of the Transition Bonds; (b) be perfected continuously through a filing made pursuant to the Uniform Commercial Code with the New Jersey Secretary of State; (c) be enforceable against the Company and the SPE and all third parties, including judicial lien creditors; (d) from and after the filing described in clause (b) above, constitute a continuously perfected security interest in, and lien on, all then existing or subsequent revenues and proceeds arising with respect to the Bondable Transition Property, whether or not

the electric power and energy included in the calculation of such revenues and proceeds have been provided; and (e) rank prior to any other lien, including any judicial lien, which attaches subsequently to the Bondable Transition Property or any other rights created by this Financing Order or any revenues or proceeds of the foregoing.

- (10) The methodology for the remittance of payments arising from the TBC as described in the Petition will satisfy the requirements of N.J.S.A. 48:3-62 and is a reasonable means of undertaking the remittance of these amounts.
- (11) The Servicing Fee to be paid to the Company in its role as Servicer as described herein is reasonable. The Board finds the higher annual servicing fee of any successor Servicer of up to 1.25% of the initial principal balance of all Transition Bonds that the SPE has issued, is reasonable. The conditions to the resignation or replacement of the Company as Servicer as will be described in the SEC Filing are reasonable; however, no third party servicer shall be approved or required to replace the Company in any of its servicing functions in whole or in part if such approval or requirement will cause the then current rating of the Transition Bonds to be withdrawn or downgraded.
- (12) The TBC and TBC-Tax billing, collection and remittance procedures imposed upon any EPS as set forth in this Financing Order and the Petition are reasonable.
- (13) The Upfront Transaction Costs, not to exceed \$2 million in the aggregate, are reasonable and recoverable by the Company as Bondable Stranded Costs though the proceeds of the Transition Bonds consistent with the Act.
- (14) The recovery of the Transition Costs, as previously described herein, is reasonable and consistent with the Act. The recovery of the Bondable Stranded Costs, as previously described herein, including ongoing costs associated with the Transition Bonds, through the TBC is reasonable and consistent with the Act.
- (15) The (a) scheduled amortization upon issuance for the Transition Bonds not exceeding 15 years from the date of issuance of the Transition Bonds the proceeds of which will be used to reduce stranded costs related to the Company's deferred BGS balance and (b) the stated maturity of the Transition Bonds being up to three additional years following the scheduled amortization are reasonable and permitted under the Act, and the collection of the TBC (and the remittance thereof to the SPE) until payment in full of the Transition Bonds is reasonable and permitted under the Act.
- (16) The issuance of series and classes of the Transition Bonds by the SPE in an aggregate principal amount not to exceed \$46.3 million is reasonable and consistent with the Act and prior Board Orders. The Financial Advisor has advised the Board that, in its opinion, the negotiated sale of the Transition Bonds should be expected to provide a lower cost of funds than a competitive sale. Therefore, the negotiation of the sale of the Transition Bonds is reasonable and serves the public interest.

- (17) The TBC True-Up to obtain adjustments to the TBC and the TBC-Tax True-Up to obtain adjustments to the TBC-Tax described hereinabove and set forth in Appendix C hereof are reasonable.

Use of Proceeds

- (18) The Company's proposed application of the proceeds of the Transition Bonds as described herein and in the Petition and Company testimony is reasonable and consistent with the Act.

Regulatory Compliance

- (19) In light of the specific provisions of the Act governing the Transition Bond Transaction, the Company's Petition is found to comply with N.J.A.C. 14:1-5.6 and -5.9, to the extent either might be deemed applicable.

Periodic Adjustment of the TBC-Tax

- (20) The TBC-Tax should be subject to mandatory periodic adjustment at the same time and in substantially the same manner as adjustments to the TBC; provided, however, the Company makes reasonable efforts to utilize any and all deductions to taxable income for which it may be eligible with respect to the securitization transaction, now or in the future, whether or not such deductions are contained in the methodology presented by the Company in its Petition, so that the TBC-Tax Component does not result in the over recovery or under recovery of taxes to the Company.

6. ORDERS

Based on the foregoing, the record of proceedings on the Petition and the provisions of the Act as amended by the Securitization Act, the Final Order-Restructuring, the Summary Order-Rates and other related Orders the Board HEREBY ORDERS:

- (1) The Petition for this Financing Order pursuant to N.J.S.A. 48:3-62 is approved subject to the terms and conditions stated herein.
- (2) The Board HEREBY AUTHORIZES recovery by the Company of the Transition Costs, and the Upfront Transaction Costs, specified in Appendix I through the issuance of Transition Bonds and in the manner set forth herein. The Board HEREBY APPROVES the methodology for the calculation and adjustment of the TBC and the TBC-Tax in accordance with the Board's Findings herein.

Bondable Transition Property and TBC

- (3) The issuance of Transition Bonds by the SPE up to a maximum of \$46.3 million, and the transfer by the Company to the SPE of the Bondable Transition Property created by the Act and this Financing Order are authorized.
- (4) In accordance with N.J.S.A. 48:3-67, the TBC will be assessed against all existing and future customers of the Company or any Successor Utility, subject to N.J.S.A. 48:3-77, and will apply equally to each such customer of the Company, regardless of class, based on the amount of electricity delivered to the customer (whether purchased from the Company or an EPS) through the transmission and distribution system of the Company or

any Successor Utility. Pursuant to N.J.S.A. 48:3-77, the TBC shall be imposed on the power produced by on-site generators under the circumstances specified in N.J.S.A. 48:3-77.

- (5) The TBC will be set at a level sufficient to recover the Transition Costs and other Bondable Stranded Costs. Specifically, the TBC will be established and adjusted periodically in accordance with the methodology approved in this Financing Order (see Appendix C hereto), to a level intended to recover ongoing Bondable Stranded Costs, including without limitation: (i) the principal of (determined in accordance with the Expected Amortization Schedule as detailed in the Issuance Advice Letter), and interest on, the Transition Bonds; (ii) the administration fees, legal and accounting fees, directors or managers fees, rating agency fees, trustee and other costs of operating and administering the SPE; (iii) the costs of servicing the Transition Bonds, including the Servicing Fee and trustee fees, expenses and indemnities; (iv) amounts required to fund or replenish the Overcollateralization Subaccount in accordance with the overcollateralization schedule confirmed in the Issuance Advice Letter; (v) the reimbursement of any amounts withdrawn from the Capital Subaccount; (vi) the costs associated with any hedging arrangements; and (vii) the ongoing annual expenses of any other credit enhancement arrangement. The TBC-Tax will be set at a level and adjusted periodically in accordance with the methodology approved in this Financing Order (see Appendix C hereto) to recover federal income taxes and state corporate business taxes, as appropriate, associated with the Transition Costs and collection of the TBC. The TBC and the TBC-Tax will remain in effect until the SPE, as owner of the Bondable Transition Property, has received TBC collections sufficient to recover in full all the Bondable Stranded Costs.
- (6) Pursuant to the Act, upon transfer by the Company of its interest in the Bondable Transition Property, receipt of consideration therefore by the Company and acquisition of such Bondable Transition Property by an assignee, there will be created and established for the benefit of the assignee in accordance herewith Bondable Transition Property consisting of: (a) the irrevocable right to charge, collect and receive, and be paid from collections of, the TBC in the amount necessary to recover the Transition Costs and other Bondable Stranded costs, (b) all rights of the Company under this Financing Order including without limitation all rights to obtain TBC True-Ups pursuant to N.J.S.A. 48:3-64(b), and (c) all revenues, collections, payments, money and proceeds arising under, or with respect to, all of the foregoing.
- (7) Pursuant to N.J.S.A. 48:3-65, neither the Board nor any other governmental entity will have the authority, directly or indirectly, legally or equitably, to rescind, alter, repeal, modify or amend this Financing Order, to revalue, re-evaluate or revise the amount of Transition Costs, to determine that the TBC or the TBC-Tax or the revenues required to recover the Transition Costs are unjust or unreasonable, or in any way to reduce or impair the value of the Bondable Transition Property, nor shall the amount of revenues arising with respect thereto be subject to reduction, impairment, postponement or termination, directly or indirectly,

provided, however, that nothing in this Financing Order will preclude the TBC True-Up or the TBC-Tax True-Up in accordance with the provisions hereof and of N.J.S.A. 48:3-64(b).

- (8) Pursuant to N.J.S.A. 48:3-65, and notwithstanding any other provision of law, this Financing Order and the TBC (revised in accordance with the provisions of this Financing Order) authorized herein will become irrevocable upon the issuance of this Financing Order and its becoming effective pursuant to N.J.S.A. 48:3-68. Pursuant to N.J.S.A. 48:3-65, this Financing Order, the TBC and the Bondable Transition Property will constitute vested, presently existing property rights upon the transfer of the Company's interest in the Bondable Transition Property by the Company to an assignee and receipt by the Company of consideration for such interest in the Bondable Transition Property, and following such transfer and receipt of consideration, such property right in the Bondable Transition Property shall be vested *ab initio* in such assignee.
- (9) Pursuant to N.J.S.A. 48:3-64(c), until the Transition Costs have been recovered fully, this Financing Order and the authority to meter, charge, collect and receive the TBC and the TBC-Tax will remain in effect and the Company shall be obligated to provide electricity through its transmission and distribution system to its customers and will have the right to meter, charge, collect and receive the TBC and the TBC-Tax, which rights and obligations may be assignable solely within the discretion of the Company.

Sale, Pledge and Assignment Of Transition Property

- (10) In accordance with the Act and as described in the Petition, the Company is authorized to sell, pledge or assign any or all of its interest in the Bondable Transition Property to the SPE. The SPE is authorized to acquire the Bondable Transition Property and is approved and designated as a "financing entity" (as defined in N.J.S.A. 48:3-51) for such purpose, and for the purpose of issuing Transition Bonds and pledging the Bondable Transition Property to the payment of the Transition Bonds. The transfers by the Company of the Bondable Transition Property to the SPE are, and will be treated as, true sales and absolute transfers to the SPE, even though such transactions may be treated as financings, and not sales, for federal and state tax purposes, for financial accounting purposes or for other purposes. Neither this Financing Order nor the transfer of the Bondable Transition Property nor the interest of the SPE in the Bondable Transition Property shall be defeated or otherwise affected by the commingling of TBC collections with other funds of the Company, and the portion of such commingled funds allocable to TBC collections may be determined by such methods of estimation as are set forth in the Servicing Agreement.
- (11) The SPE will pay the purchase price of the Bondable Transition Property equal to the net proceeds from the issuance of the Transition Bonds to the Company, to be applied substantially as described in the Petition and as set forth in ordering paragraph 36 of this Financing Order.
- (12) When the Company transfers its interest in the Bondable Transition Property to the SPE as described in this Financing Order, the Bondable

Transition Property will arise and constitute a valid, presently existing property right, and will be vested in the SPE as an original property right and not by assignment from any other entity. The SPE will have all of the statutory rights inherent in the Bondable Transition Property, including, without limitation, the right to exercise, through the Company or any Successor Utility, any and all rights and remedies, including the right to direct the Company or any Successor Utility to shut-off electric power to a particular customer to the extent permitted by Board policies and procedures and any applicable laws then in effect, and to assess and collect any amounts payable by any customer in respect of such Bondable Transition Property, notwithstanding any objection or direction to the contrary by the Servicer.

- (13) When the Company transfers its interest in the Bondable Transition Property to the SPE, neither the Company nor any successor Servicer will be entitled to recover the TBC other than for the benefit of the holders of the Transition Bonds in accordance with the Company's duties as Servicer of the Bondable Transition Property as authorized in this Financing Order.

Transition Bonds

- (14) The scheduled amortization upon issuance of the Transition Bonds will be up to 15 years, the proceeds of which will be used by the Company in accordance with N.J.S.A. 48:3-62, to reduce Transition Costs through the refinancing of debt, equity, or both, as permitted by the Act, and the stated maturity will be up to three additional years. The Transition Bonds may be issued in series and classes with different terms. Exhibit B hereto contains forecasted principal and interest payments each year in the Transition Bond Transaction based upon the forecasted level of the Transition Bonds to be issued. The final Expected Amortization Schedule may be altered as a result of market conditions or rating agency requirements, subject to Designee approval. The associated TBC-Tax collections may be adjusted from time to time to reflect the changing principal and interest components of the Transition Bond debt service. One or more classes of Transition Bonds may be issued as variable rate instruments, the interest on which will be fixed or hedged in accordance with the terms of a hedging arrangement consistent with this Financing Order.
- (15) The amount of Transition Bonds to be issued (not to exceed \$46.3 million including Upfront Transaction Costs) is approved as described herein and as detailed in Appendix I. The Company should be afforded substantial flexibility in establishing the provisions of the Transition Bonds, and the final structure, pricing, terms and conditions of the Transition Bonds (including any hedging arrangement described in Section 2(d) hereof) will, to the extent consistent with the provisions of this Financing Order, be determined by the Company and approved by the Board or its Designee pursuant to his delegation of authority from the Board, pursuant to N.J.S.A. 48:3-62(b)(4) and N.J.S.A. 48:3-64(a)(3), at the time the Transition Bonds are priced. The Designee may rely conclusively on the finding of the benefits of securitization in paragraph 6 of Section 5 hereof, as required by N.J.S.A. 48:3-62(b)(3), upon the advice of the Financial

Advisor provided in the form of Appendix H hereto and upon information provided to the Designee by the Company to support any Designee Certification. Any Designee Certification shall be substantially in the form of Appendix A hereto, shall constitute a part of this Financing Order, shall constitute a full and complete record of the determinations and approvals made therein and full satisfaction of the requirements of N.J.S.A. 48:3-62(b)(4) and N.J.S.A. 48:3-64(a)(3), and shall be final and uncontestable as of its date.

- (16) The issuance and sale of the Transition Bonds through negotiation with underwriters is approved.

Recovery of Bondable Stranded Costs

- (17) In accordance with N.J.S.A. 48:3-69, the Transition Bonds will be recourse only to the credit and assets of the SPE. Investment income earned on the trust accounts held by the Transition Bond Trustee may be used to satisfy current scheduled interest and principal payments on the Transition Bonds and related expenses and to replenish the SPE's equity and the Required Over-collateralization Schedule. Investment income in the Capital Subaccount not used currently for this purpose will be released to the SPE. Any earnings in excess of amounts required to be held in such trust accounts (other than the capital subaccounts for all series of Transition Bonds) will reduce the TBC through the TBC True-Up.
- (18) The Upfront Transaction Costs up to \$2 million in the aggregate are authorized to be recovered through the issuance of the Transition Bonds.
- (19) The Transition Costs as described herein are authorized to be recovered through the issuance of the Transition Bonds. The ongoing Bondable Stranded Costs associated with the Transition Bonds, including principal and interest and other Bondable Stranded Costs discussed herein, are authorized to be recovered through the TBC.

Reports

- (20) The Designee will make his/her determinations and approvals of the pricing of the Transition Bonds upon receipt from the Company of the Pricing Advice Certificate(s) substantially in the form of Appendix D hereto. Within two business days after the pricing of the Transition Bonds, the Designee shall file with the Secretary of the Board a Designee Certification substantially in the form of Appendix A hereto. As provided in ordering paragraph 15 of this Financing Order, any Designee Certification will be final and uncontestable as of its date and will represent final approval, pursuant to N.J.S.A. 48:3-62(b)(4) and N.J.S.A. 48:3-64(a)(3), of the structure, pricing, terms and conditions of the Transition Bonds. No delay or error in such filing will affect the validity of this Financing Order, the Bondable Transition Property or the Transition Bonds.
- (21) Pursuant to N.J.S.A. 48:3-64(a)(3), not later than five business days after the issuance and sale of the Transition Bonds, the Company will notify the Secretary of the Board, in an Issuance Advice Letter substantially in the form of Appendix B hereto, of the TBC and TBC-Tax (which are hereby approved) to be in effect after the issuance of the Transition

Bonds, the Expected Amortization Schedule approved in the Designee Certification and related matters. The Issuance Advice Letter will be effective automatically upon filing with the Secretary of the Board. No delay or error in such filing will affect the validity of this Financing Order, the Bondable Transition Property or the Transition Bonds.

Servicing of Transition Bonds

- (22) The Company, as Servicer, is authorized to enter into a servicing agreement, substantially as will be described in the SEC Filing, with the SPE, which is hereby confirmed, pursuant to which the Company agrees to continue to operate its distribution system to provide service to its customers, to impose, charge, collect and receive the TBC with respect to Bondable Transition Property for the benefit and account of such SPE or its assigns, and to account for and remit these amounts to or for the account of such SPE or its assigns in the manner described in the Petition.
- (23) Each customer's monthly bill will note that a portion of the charges on such bill represents amounts being collected on behalf of the SPE as owner of the Bondable Transition Property.
- (24) At the beginning of each year, projected TBC and TBC-Tax revenue will be multiplied by collection curves to produce Estimated Collections. These estimated collections will be used in setting the TBC and TBC-Tax rates. At the end of each month, actual billed TBC and TBC-Tax revenue will be multiplied by the collection curves to produce Actual Collections. Such Actual Collections will be remitted to the Servicer each month. At the end of the year, Actual Collections will be compared to payments of principal and interest on the Transition Bonds (including unpaid amounts from prior periods and replenishment of credit enhancements, if applicable) during the annual reconciliation process. The Estimated Collections (and resulting TBC and TBC-Tax rates) for the following year will be adjusted, as necessary, based upon this reconciliation. The collection curve compares actual amounts billed to actual payments received over various time periods (e.g., 30, 60, 90 days) and will be updated at least annually (as part of the annual reconciliation process). There will be a separate collection curve for each rate class.
- (25) Pursuant to N.J.S.A. 48:3-71, in the event of a default by a Servicer under any servicing agreement with respect to the Bondable Transition Property, upon application of the SPE or the Transition Bond Trustee, the Board will designate a successor Servicer for the Bondable Transition Property, who will promptly assume billing and collection responsibilities for the TBC and the TBC-Tax. The Board will act on an expedited basis to designate within 30 days such successor Servicer. Such successor Servicer will assume all rights and obligations of the initial Servicer.
- (26) The Board will permit a successor Servicer to replace the Company as Servicer in any of its servicing functions with respect to the TBC and the Bondable Transition Property authorized by this Financing Order only upon determining that approving or requiring such successor Servicer will

not cause then current credit ratings on either series of Transition Bonds to be withdrawn or downgraded.

- (27) Any EPS that proposes to collect and remit the TBC and associated TBC-Tax must (a) meet the creditworthiness criteria to be established by the Board, and at a minimum, the criteria set forth and approved below in this Financing Order; and (b) comply with the billing, collection and remittance procedures and information access requirements set forth below.
- (28) The Board may authorize an EPS to bill and collect the TBC and associated TBC-Tax, for remittance to the Servicer, only with respect to power sold by it and only if: (i) such EPS agrees to remit the full amount of all charges it bills to customers for services provided by the Company or any Successor Utility, together with amounts related to the TBC and the TBC-Tax, regardless of whether payments are received from such customers, within 15 days of the Company's (or any successor Servicer's) bill for such charges; (ii) such EPS agrees to provide the Servicer with total monthly kWh usage information for each customer in a timely manner to enable the Servicer to fulfill its obligations, because such information is the basis for assessing the required level of such remittances; and (iii) the Servicer is entitled, seven days after a default by the EPS in remitting any charges payable to the Company, including amounts related to the TBC and the TBC-Tax, to assume responsibility for billing and collecting all charges for services provided by the Company or any Servicer, including the TBC and the TBC-Tax, or to transfer responsibility to a qualifying third party. In addition, if and so long as such EPS does not maintain at least a "Baa2" and "BBB" (or the equivalent) long-term unsecured credit rating from Moody's Investors Service and Standard & Poor's Rating Services, respectively, such EPS will maintain, with the Servicer or as directed by the Servicer, a cash deposit or comparable security equal to two months' maximum estimated collections of all charges payable to the Company, including the amounts related to the TBC and the TBC-Tax, as must be agreed upon by the Company (or any Successor Servicer) and the EPS. In the event of a default in the remittance of any such amounts by an EPS, any shortfall in TBC collections or TBC-Tax collections by an EPS not recovered from such cash deposits or comparable security will be included in the TBC True-Up and the TBC-Tax True-Up as described in Appendix C hereto.
- (29) Customers will continue to be responsible for payment to the Servicer of the TBC and the TBC-Tax billed by an EPS, to the extent such customer has not paid the TBC or TBC-Tax billed to it. In the event of a failure of any customer to pay the TBC or TBC-Tax, the Company is authorized to shut-off power, or a successor Servicer is authorized to direct the Successor Utility to shut-off power, to such customer in accordance with Board policies and procedures and any applicable laws then in effect.
- (30) As provided in the Servicing Agreement, the Servicer will be entitled to an annual servicing fee equal to 0.125% of the aggregate initial principal amount of both series of the Transition Bonds (the "Servicing Fee"). The Board approves such increase in the Servicing Fee as described herein. The Board also approves a higher annual Servicing Fee of any successor

Servicer of up to 1.25% of the initial principal balance the Transition Bonds.

The TBC: Establishment and Adjustment

- (31) The methodology used to calculate the TBC, the TBC True-Up, the TBC Tax and the TBC-Tax True-Up, as described in Appendix C hereof, is approved.
- (32) Pursuant to N.J.S.A. 48:3-64(a)(3), the revised TBC and TBC-Tax to go into effect initially following the issuance of the Transition Bonds will be filed with the Secretary of the Board in the Issuance Advice Letter and will be effective upon such filing, to be adjusted up or down, as necessary, by the TBC True-Up and TBC-Tax True-Up.
- (33) In accordance with N.J.S.A. 48:3-64(b), the Servicer, on behalf of the Company and the pledgees or transferees of the Bondable Transition Property, is authorized to file with the Secretary of the Board periodic TBC True-Ups, at least annually but not more frequently than quarterly (or monthly in the last two years before the scheduled maturity of the Transition Bonds and continuing until all Transition Costs and other Bondable Stranded Costs determined to be recoverable in this Financing Order are paid in full, even past legal maturity), to the extent necessary to ensure the timely receipt of revenues equal in amount to required payments of Transition Costs. Each such adjustment shall be formula-based, shall be in the amount required to ensure the timely receipt of revenues sufficient to provide for the full and timely recovery of Transition Costs and other Bondable Stranded Costs, including, without limitation, the timely payment of principal of, and interest and acquisition or redemption premium on, the Transition Bonds issued to finance Transition Costs and Upfront Transaction Costs. The periodic adjustments will be filed in substantially the form attached to this Financing Order as Appendix E.
- (34) The Company will propose each TBC True-Up in a filing with the Secretary of the Board at least 30 days in advance of the date upon which it is requested to be effective. The proposed adjustment will become effective on an interim basis on the date on which it is requested to be effective and, in the absence of a Board Order to the contrary finding manifest error (i.e., an arithmetic error evident on the face of the filing), will become final and non-appealable 60 days after the filing.
- (35) If necessary to ensure the timely recovery of the Transition Costs and the TBC-Tax, the Board will approve adjustments to the methodology as proposed by the Company in "non-routine" adjustments to the TBC and the TBC-Tax.

Use of Transition Bond Proceeds

- (36) The Company will use the proceeds of the Transition Bonds, net of Upfront Transaction Costs and any costs of credit enhancement for the Transition Bonds paid from the proceeds, to reduce its otherwise recoverable Transition Costs through the refinancing or retirement of debt or equity, or both, as permitted by the Act. The proceeds may be applied to with respect to debt, equity or both, as set forth in the Petition and

testimony by the Company. No failure to apply the proceeds in accordance with this Financing Order shall affect the sale of the Bondable Transition Property or the right to collect the TBC.

Approval of Servicing Agreement, Administration Agreement, Sale Agreement, Hedging Arrangement, if any, and Other Agreements or Transactions

- (37) The Company's entering into a servicing agreement, an administration agreement, a sale agreement and any other Transition Bond Transaction documents with the SPE or any other party consistent with the terms of the Financing Order and/or substantially as will be described in the SEC Filing and such other related transaction documents and other dealings between the Company and the SPE or any other party as contemplated therein are hereby authorized. The Company's entering into any hedging arrangement as described in Section 2(d) of this Financing Order and any other Transition Bond Transaction documents with the SPE or any other party consistent with the terms of this Financing Order and/or substantially as will be described in the SEC Filing and such other related transaction documents and other dealings between the Company and the SPE or any other party as contemplated therein are hereby authorized.

Accounting for Certain Benefits

- (38) Pursuant to N.J.S.A. 48:3-64(d), any amount of the TBC collections held by the Transition Bond Trustee in excess of those amounts necessary to recover fully the Transition Bond Costs, upon retirement of all outstanding Transition Bonds (including all payments of principal and interest) will be released to the SPE and ultimately distributed to the Company. The Company will apply as a credit to charges to customers of the Company, any amounts so received from the SPE that exceed the initial amount of the equity contribution to the SPE and the investment earnings on funds in the Capital Subaccount, less any amount of unpaid TBC-Tax amounts, as described in the Petition. The Company's may retain its equity contribution distributed to it by the SPE.
- (39) Any overcollected TBC-Tax charges with respect to the Transition Bonds also shall be credited to the Company's electric customers against the Company's delivery charges.

Records

- (40) Pursuant to N.J.S.A. 48:3-70, the Company or another Servicer on its behalf will maintain or cause to be maintained records of TBC and associated TBC-Tax collections which have been assessed and collected by the Company, as Servicer, under this Financing Order. Such records, and any records of a financing entity, shall be made available by the Company for inspection and examination within a reasonable time upon demand therefore by the Board or the related financing entity.

TBC Tax Establishment and Adjustment

- (41) Pursuant to this Financing Order, the Company is authorized to file with the Board proposals for mandatory periodic TBC-Tax True-Ups. The methodology used to calculate the TBC-Tax and the TBC-Tax True-Up,

as described in Appendix C hereto, is approved. Pursuant to N.J.S.A. 48:3-64, the TBC-Tax, after giving effect to the Transition Bond Transaction, will be filed with the Secretary of the Board in the Issuance Advice Letter and will be effective upon such filing, to be adjusted up or down, as necessary, by the TBC-Tax True-Up. The TBC-Tax True-Up shall be made substantially in the same manner and at the same time as the TBC True-Up for the TBC in order to ensure receipt of revenues sufficient to recover the TBC-Tax Component. Unless the Company or the Board proposes an adjustment to the methodology used to calculate the TBC-Tax, any TBC-Tax True-Up will become effective 30 days after filing absent manifest error and, in the absence of a Board Order to the contrary, will become final and non-appealable 60 days after filing. The periodic adjustments will be filed in substantially the form attached to this Financing Order as Appendix E hereto.

- (42) It is the express intention of the Board that the Company shall not over-recover or under-recover the TBC-Tax Component. Accordingly, the Company shall adjust the methodology used to calculate the TBC-Tax to reflect changes in federal income tax or state corporate business tax rates and any other changes to the application or interpretation of such laws, provided such changes are either “generic” (affect all taxpayers such as a prospective change in the tax rate) or are securitization-related.

Any proposed adjustment to the TBC-Tax methodology by the Company shall be submitted to the Secretary of the Board no less than 60 days prior to its proposed effective date and shall become effective on the proposed effective date absent a Board Order to the contrary; provided, however, that the existing methodology shall remain effective in the interim.

- (43) As provided in N.J.S.A. 48:3-72(a)(4) of the Act, the Company's right to recover the TBC-Tax Component will in no way affect or impair the legal true sale and absolute transfer of the Bondable Transition Property to the SPE, or otherwise affect the legal rights and attributes of the Bondable Transition Property under the Act, or under this Financing Order.

Miscellaneous

- (44) Pursuant to N.J.S.A. 48:3-68, this Financing Order will be effective only in accordance with the terms hereof and upon the written consent of the Company to all such terms.
- (45) Pursuant to N.J.S.A. 48:3-74, the consideration or approval by the Board of a petition by the Company under the Act, including this Financing Order and the periodic adjustment provided in N.J.S.A. 48:3-64, will be wholly separate from, and will not be utilized in the Board's consideration of, any other ratemaking or other proceeding involving the Company, except as otherwise provided in paragraphs 38 and 39 hereof and in the Act.
- (46) Any holder of a Transition Bond and the Transition Bond Trustee, for the benefit of such holders, are entitled to the benefit of the pledges and agreements of the State of New Jersey set forth in the Act and each of the Company, the SPE and the Transition Bond Trustee is authorized to

include such pledges and agreements in any contract with the holders of the Transition Bonds, the Transition Bond Trustee or with any assignees.

This Financing Order is issued subject to the following provisions, failure of compliance with which shall not affect the rights of the holders of the Transition Bonds:

- (1) The Company will furnish the Secretary of the Board with copies of all documents as executed and filed with other regulatory agencies relating to the Transition Bonds.
- (2) The Company will annually file with this Board until all proceeds are disbursed, a statement setting forth details with respect to the disbursement of net proceeds of the Transition Bonds and their use in addressing debt or equity or both.
- (3) This Financing Order will not be construed as a certification that the Transition Bonds will be secured by tangible or intangible assets of commensurate value or investment costs.
- (4) Not more than nine months following issuance of the Transition Bonds, the Company will file with the Board a reconciliation statement for Upfront Transaction Costs. If the Upfront Transaction Costs are less than \$2 million, any difference will be accounted for and made available for the benefit of customers. Prior to being expended for their intended purpose, earnings on proceeds from the Transition Bonds issued to pay Upfront Transaction Costs shall be credited to the Company's Deferred Balance, and bear interest at the rate set by the Board in its July 31, 2003 Summary Order in Docket No. ER02080510. The failure to file such statement or any delay in filing the same or making such credits shall not affect the validity of this Financing Order, the Bondable Transition Property or the Transition Bonds.

- (5) The Board hereby designates Commissioner Jack Alter, or, in his absence, Commissioner Frederick F. Butler, as its Designee under this Financing Order. Such Designee shall act only in accordance with the Designee Guidelines approved herein and attached hereto as Appendix F hereto.

DATED: **5/26/04**

BOARD OF PUBLIC UTILITIES
BY:

SIGNED

JEANNE M. FOX
PRESIDENT

SIGNED

FREDERICK F. BUTLER
COMMISSIONER

SIGNED

CAROL J. MURPHY
COMMISSIONER

SIGNED

CONNIE O. HUGHES
COMMISSIONER

SIGNED

JACK ALTER
COMMISSIONER

ATTEST:

SIGNED

KRISTI IZZO
BOARD SECRETARY

CONSENT OF THE COMPANY

Pursuant to N.J.S.A. 48:3-68, the Company hereby consents to all of the terms of this Financing Order, this ____ day of _____, 2004.

ROCKLAND ELECTRIC COMPANY

BY:

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EXHIBITS

Exhibit A Savings Analysis (1 page)

Exhibit B Debt Design Chart (i.e., Revised Exhibit F-1 to the Petition)(1 page), TBC
Development Chart (i.e., Revised Exhibit F-2 to the Petition) (1 page)

APPENDICES

Appendix A	Form of Designee Certification (w/ Attachment 1 Expected Amortization Schedule). Filed with the BPU within two days after the pricing of the transition bonds.
Appendix B	Form of Issuance Advice Letter (w/ Attachment 1 Expected Amortization Schedule). Filed with the BPU not later than five business days after the issuance and sale of the transition bonds.
Appendix C	Revised Exhibit F-3 to the Petition (methodology for setting and adjusting the TBC and MTC-Tax).
Appendix D	Form of Pricing Advice Certificate. Filed with the BPU no later than the date of pricing of the transition bonds.
Appendix E	Form of True-Up Letter (w/ Table 1 Input Values).
Appendix F	Designee Guidelines.
Appendix G	Form of Underwriter Certification. Filed with the BPU on the date of pricing of the transition bonds.
Appendix H	Form of Bear Stearns Letter
Appendix I	Series 2004-1 Amounts to be Securitized, Upfront Transaction Costs

[BPU LETTERHEAD]

DESIGNEE CERTIFICATION

(to be filed with the Secretary of the Board
within two business days after
the pricing of the Transition Bonds)

BOARD OF PUBLIC UTILITIES (THE "BOARD") OF THE STATE OF NEW JERSEY

SUBJECT: Certification for Rockland Electric Company Transition Funding LLC Series 2004-1 Transition Bonds ("Series 2004-1 Transition Bonds") Pursuant to the Order of the Board dated May ___, 2004, Docket No. EF02110852 (the "Financing Order").

I, Jack Alter, Commissioner, (the "Designee"), in accordance with Sections 14(b) and 15(a)(3) of the Electric Discount and Energy Competition Act, Chapter 23 of the Laws of 1999 (the "Act"), for the purpose of (a) establishing that the structuring and pricing of the Series 2004-1 Transition Bonds assures that the customers of Rockland Electric Company (the "Company") pay the lowest Transition Bond Charges consistent with market conditions and the terms of the Financing Order and (b) approving at the time of pricing of the Series 2004-1 Transition Bonds, the terms and conditions of the Series 2004-1 Transition Bonds, servicing fees, if any, with respect to the collection of related Transition Bond Charges and the pledging, assignment and sale of Bondable Transition Property in connection with the Series 2004-1 Transition Bonds and related Transition Bond Charge, HEREBY CERTIFY as follows:

1. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

The following are the terms of the Series 2004-1 Transition Bonds:

Name of Transition Bonds: Series 2004-1 Transition Bonds
SPE Name: Rockland Electric Company Transition Funding LLC
Closing Date: May ___, 2004
Amount Issued: \$46,300,000
Interest Rates and Expected Amortization Schedule: See Attachment 1
Distributions to Investors:
Weighted Average Coupon Rate: _____
Weighted Average Yield: _____
Capitalization Amount: _____
Overcollateralization Amount: _____
Overcollateralization Schedule: See Attachment 1
New Jersey Statutory Corporate Business Tax Rate: 9.00%

New Jersey Sales Tax Rate: 6.00%

Federal Statutory Corporate Income Tax Rate: 35.00%

2. All such items are within the parameters established in the Financing Order and in the Designee Guidelines in Appendix F to the Financing Order. Accordingly, (a) the structuring and pricing of the Series 2004-1 Transition Bonds assures that the Company's customers will pay the lowest Transition Bond Charges consistent with market conditions and the terms of the Financing Order and (b) the terms and conditions of the Series 2004-1 Transition Bonds and the schedule of payments of principal and interest on the Series 2004-1 Transition Bonds, and the capitalization and overcollateralization requirements are approved.

THIS CERTIFICATION, in accordance with Sections 14(b)(4) and 15(a)(3) of the Act and the Financing Order, is final and uncontestable as of its date, which is the pricing date of the Series 2004-1 Transition Bonds.

DATED: May__, 2004

Jack Alter, Commissioner
Board of Public Utilities Designee

ATTACHMENT 1
 EXPECTED AMORTIZATION SCHEDULE
 (with coupons, prices, classes, if any, expected amortization schedule and stated maturities, call features, and scheduled overcollateralization requirements)

General Terms

<u>Class</u>	<u>Price</u>	<u>Coupon</u>	<u>Fixed/Floating</u>	<u>Ave. Life</u>	<u>Stated Maturity</u>	<u>Call Feature</u>
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Scheduled Amortization Requirement

<u>Date</u>	<u>Class A-1</u>	<u>Class A-2</u>	<u>Class A-3</u>	<u>Class A-4</u>
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Schedule of Overcollateralization Requirement

<u>Date</u>	<u>Required Overcollateralization Level</u>
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ISSUANCE ADVICE LETTER

[To be filed with the Board of Public Utilities not later than
five business days after the issuance and sale of the Transition Bonds]

ROCKLAND ELECTRIC COMPANY
One Blue Hill Plaza
Pearl River, New York 10965

May __, 2004

Kristi Izzo, Secretary
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

Re: Rockland Electric Company Issuance Advice Letter
Docket No. EF02110852

Dear Secretary Izzo:

Pursuant to your Honorable Board's order dated May __, 2004, in the above-captioned Docket ("Financing Order"), Rockland Electric Company (the "Company") hereby transmits for filing this Issuance Advice Letter. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

In the Financing Order, the Board authorized the Company to file an Issuance Advice Letter not later than five business days after the issuance and sale of a series of Transition Bonds. This Issuance Advice Letter filing applies the methodology approved by the Board in the Financing Order to establish the Transition Bond Charge and MTC-Tax after giving effect to the Series 2004-1 Transition Bonds. The terms of issuance are as follows:

1. Transition Bond Name: Series 2004-1 Transition Bonds
2. SPE Name: Rockland Electric Company Transition Funding LLC
3. Trustee: Bank of New York
4. Closing Date: July __, 2004
5. Amount Issued: \$46,300,000
6. Upfront Transaction Costs: _____
7. Interest Rates and Expected Amortization Schedule: See Attachment 1
8. Distributions to Investors:
9. Annual Servicing Fee as a percent of the initial principal balance: 00.125%
10. Overcollateralization amount: _____
11. Overcollateralization Schedule: See Attachment 1
12. Capitalization Amount: _____

13. Brief description of any interest rate exchange agreement or other hedging arrangement:

Table I below shows the current assumptions for each of the variables used in the Transition Bond Charge and MTC-Tax calculation.

TABLE I
INPUT VALUES FOR THE TRANSITION BOND CHARGE AND MTC-TAX

Forecasted annual kWh sales: _____

Days Outstanding: _____

Percent of billed amounts expected to be charged-off: _____

Forecasted annual Ongoing Transition Bond Costs (including any hedging costs): _____

Required annual overcollateralization amount - Series 2004-1 Transition Bonds: _____

Current Series 2004-1 Transition Bonds outstanding balance: _____

Scheduled Transition Bond outstanding balance as of ____/____/____: _____

New Jersey Statutory Corporate Business Tax Rate: 9.00%

New Jersey Sales Tax Rate: 6.00%

Federal Statutory Corporate Income Tax Rate: 35.00%

Based on the approved formula, the Transition Bond Charge is _____ ¢/kWh and the MTC-Tax is _____ ¢/kWh after giving effect to the Series 2004-1 Transition Bond Transaction.

Exhibit A to the Financing Order issued by the Board in this docket shows expected net present value savings of \$____ million for this series of Transition Bonds.

In accordance with the Financing Order, the revised Transition Bond Charge and MTC-Tax shall be automatically effective when this Issuance Advice Letter is filed and will continue to be effective.

Respectfully submitted,

[_____]

Attachments

ATTACHMENT 1
EXPECTED AMORTIZATION SCHEDULE

(with coupons, prices, classes, if any, expected amortization schedule and stated maturities, call features and scheduled overcollateralization requirements)

A. General Terms

<u>Class</u>	<u>Price</u>	<u>Coupon</u>	<u>Fixed/Floating</u>	<u>Ave. Life</u>	<u>Stated Maturity</u>	<u>Call Feature</u>
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Scheduled Amortization Requirement

<u>Date</u>	<u>Class A-1</u>	<u>Class A-2</u>	<u>Class A-3</u>	<u>Class A-4</u>
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Schedule of Overcollateralization Requirement

<u>Date</u>	<u>Required Overcollateralization Level</u>
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Development of the Transition Bond Charge, MTC-Tax and True-up Formula

The Transition Bond Charge ("TBC") is designed to ensure full and timely recovery of all Bondable Stranded Costs including financing charges and related costs. A separate Transition Bond Charge tax ("TBC-Tax") is designed to recover all income taxes payable by the Company and associated with the TBC and related TBC-Tax revenues. First, the TBC necessary to generate sufficient revenues to service all outstanding Transition Bonds and pay all related expenses is computed. Second, the TBC-Tax, designed to recover the necessary tax gross-up, is developed taking into account projected TBC billings, projected Transition Bond interest expense as accrued, the current statutory Federal Income and New Jersey Income tax rates and projected collections of the TBC-Tax. The detailed mechanics of this procedure are described below:

Phase 1 – Development of the TBC

The TBC is developed as follows: A total Transition Bond requirement is developed by deriving the total cash requirement necessary to service all of the Special Purpose Entity's ("SPE") obligations. These obligations include, but are not limited to, principal on Transition Bonds, interest on Transition Bonds, Servicing Fee, the overcollateralization amounts, rating agency fees, trustee fees, accounting/legal fees, and miscellaneous costs, any unpaid amounts related thereto from the prior payment date and any true-up amount computed below (note that there will be no true-up adjustment used in developing the initial charge) less any TBC collections expected to be received in the current period from prior TBC billings. The total of these obligations results in the TBC required to be billed and collected during the upcoming period. That result is then divided by the projected kWhs of electric distribution through-put expected to be billed and collected from ratepayers during the corresponding period. The result is a charge per kWh that will generate the expected collections necessary to pay required debt service and expenses and account for prior period shortfalls or excesses. The resulting TBC is multiplied by 1 plus the New Jersey state sales tax rate to appropriately include sales tax in the charge.

Phase 2 – Tax Gross-up Adjustment: TBC-Tax Charge Development

The first step of the calculation of the TBC-Tax is to compute the income tax due on the net projected TBC revenue (excluding sales tax). This computation is made as follows: (i) calculate projected TBC charges to be billed to ratepayers during the upcoming period to determine total accruable taxable revenue; (ii) from total accruable taxable revenue, subtract projected accrued interest on the Transition Bonds for the period, any accruable fees for administrative or servicing services to be provided to the SPE, any tax deductible amortization of Transition Bond issuance costs (limited, in the aggregate, to the amount recoverable through the TBC), and any projected allowable deduction for uncollectible accounts which subtraction results in taxable income; (iii)

multiply this amount by the statutory Federal income tax rate and the state corporate business tax rate in effect for the period, at the currently combined rate of 40.85%, and the result is income tax; (iv) the result is then divided by projected kWhs of electric distribution through-put expected to be billed and collected from ratepayers during the corresponding period; (v) the result is a charge per kWh that will generate the expected collections necessary to pay the forecasted tax liability resulting from the net combined charge revenues in the upcoming period. The resulting TBC-Tax charge is multiplied by 1 plus the New Jersey state sales tax rate to appropriately include sales tax in the charge.

Computing True-up Adjustments

True-up adjustments are designed to adjust the TBC and TBC-Tax to ensure that the cost of all series of Transition Bonds, related fees and taxes are fully and timely recovered from customers and that customers pay no more than is required to satisfy these costs. As in the case of the development of the TBC and TBC-Tax charges, the true-up adjustments are completed in two steps – Step One for the TBC and Step Two for the TBC-Tax charge.

True-up adjustments are designed to adjust the charges to ensure that the principal and interest of the Transition Bonds, related fees and taxes are fully and timely recovered from the ratepayers and that ratepayers pay no more than is required to satisfy these costs. As in the case of the development of the TBC and TBC-Tax, the true-up adjustments are completed in two steps - step one for the TBC and step two for the TBC-Tax.

Step 1: TBC True-up Adjustment

The TBC is to be adjusted at least annually to ensure full and timely recovery of all BGS Transition Costs, finance charges and related costs. The adjustment is computed as follows:

1. **TBC Shortfalls:** TBC collections are remitted to the Bond Trustee and used to service the Transition Bonds and pay related expenses. To the extent TBC collections are insufficient to fund required debt service, the Bond Trustee will fund the shortfall first with any excess collection from the prior period, then from funds held by the Bond Trustee in the Overcollateralization Subaccount and then with equity capital of the SPE. If these additional amounts are not sufficient to fund debt service, the Bond Trustee will pay interest on the Transition Bonds first and then principal to the extent there are funds remaining. To the extent overcollateralization or equity funds are used to service debt, these amounts will be added as a true-up adjustment to be factored in to the subsequent period's TBC to fully replenish those accounts to their scheduled amounts within the next period months. In addition, any principal shortfall will be added to the subsequent years' TBC via the true-up.
2. **TBC Over-collections:** To the extent TBC collections are in excess of the amount needed for the current period, such excess will be retained in the Reserve Subaccount maintained by the Bond Trustee. Such excess will be invested by the Bond Trustee in eligible investments and retained by the Bond Trustee until it is required to service debt, replenish accounts to their scheduled levels or until the next periodic true-up, whichever comes first. Any balance in the Reserve Subaccount including interest on hand at the time of a periodic true-up is subtracted as a true-up adjustment in determining the subsequent period's TBC.

3. Investment Earnings on the trust accounts held by the Bond Trustee (other than the Capital Subaccount) will be used to service debt or fund or replenish the trust accounts to their required levels and, if not needed for that purpose, will be retained in the Reserve Subaccount and will be subtracted as a true-up adjustment as of the next true-up date.
4. Periodic True-up: On at least an annual basis, any true-up adjustment, addition or subtraction, computed above will be used to develop a new TBC rate for the upcoming period. This amount will be added to or subtracted from the amount of required debt service used in developing the TBC for the subsequent period described in Phase 1 above.

Step 2 – TBC-Tax True-up Adjustment

1. Using the methodology described in Phase 2 above, compute the income tax associated with net combined charges for the prior period by substituting actual amounts for the prior period for the projected amounts.
2. Compute Income Tax True-up amount: Subtract the tax liability computed in 1. above from the actual TBC-Tax collections for the same period to derive the shortfall or over-collection with respect to Taxes. Interest will be added to any over or under-collection to ensure that no party is economically harmed by any such over or under collection. The net adjustment plus accrued interest will be added or subtracted to the projected amount of total income tax associated with net combined charges used in developing the TBC-Tax charge for the subsequent period described in Phase 2 above.

PRICING ADVICE CERTIFICATE
[To be filed no later than the date of pricing of the Transition Bonds]

ROCKLAND ELECTRIC COMPANY
One Blue Hill Plaza
Pearl River, New York 10965

May __, 2004

[Kristi Izzo, Secretary
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102]

and

[Board Designee]

Re: Docket No. EF02110852

Dear Secretary Izzo:

Pursuant to your Honorable Board's order in the above-captioned Docket ("Financing Order"), Rockland Electric Company (the "Company") hereby transmits for filing this Pricing Advice Certificate. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

In the Financing Order, the Board required the Company to file a Pricing Advice Certificate when pricing terms for a series of Transition Bonds and the pricing of any hedging arrangement in advance of the issuance of Transition Bonds have been approved by the Company. The proposed terms of pricing and issuance of the [Transition Bonds] [hedging arrangement] are as follows:

Name of Transition Bonds: Series 2004-1 Transition Bonds
SPE Name: Rockland Electric Company Transition Funding LLC
Closing Date: July __, 2004
Amount Issued: \$46,300,000
Interest Rates and Expected Amortization Schedule: See Attachment 1
Distributions to Investors:
Weighted Average Coupon Rate: _____
Weighted Average Yield: _____
Capitalization Amount: _____
Annual Servicing Fee: _____
Overcollateralization Amount: _____
Overcollateralization Schedule: See Attachment 1

[Brief description of any hedging arrangement:]

The Company hereby certifies that: (i) all proposed terms of pricing and issuance of the Series 2004-1 Transition Bonds and/or [the hedging arrangement] are within the parameters established in the Financing Order and the Designee's Guidelines attached as Appendix F to the Financing Order and (ii) the structuring and pricing of the [Series 2004-1 Transition Bonds] and/or [the hedging arrangement] assures that the Company's customers will pay the lowest Transition Bond Charges consistent with market conditions and the terms of the Financing Order [or (iii) the hedging arrangement reasonably protects ratepayers against interest rate increases which may occur after the date hereof.]

The Company's certification provided in clause (ii) or (iii) above is based, in part, upon representations provided to the Company by its Lead Underwriter for the Transition Bonds, Citigroup.

Respectfully submitted,

[]

Attachments

TRUE-UP LETTER

ROCKLAND ELECTRIC COMPANY
One Blue Hill Plaza
Pearl River, New York 10965

[date]

Kristi Izzo, Secretary
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

Re: Docket No. EF02110852

Dear Secretary Izzo:

Pursuant to your Honorable Board's order in the above-captioned Docket (the "Financing Order"), Rockland Electric Company ("Company") as Servicer of the Transition Bonds or any successor Servicer and on behalf of the trustee as assignee of the SPE shall apply at least annually for mandatory periodic adjustment to the Transition Bond Charge and TBC-Tax charge. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

Each such adjustment shall be proposed in a filing ("True-Up Letter") with the Board at least 30 days in advance of the date upon which it is requested to be effective (which effective date hereunder is _____). The proposed adjustment to the Transition Bond Charge will become effective on an interim basis on the date on which it is requested to be effective and, in the absence of a Board Order to the contrary correcting manifest error in the calculation, will become final 60 days after the filing. The proposed adjustment to the TBC-Tax charge, absent a proposed change in the formula, will become effective on an interim basis on the date on which it is requested to be effective and, in the absence of a Board order to the contrary correcting manifest error in the calculation, will become final 60 days after the filing.

Using the formula approved by the Board in the Financing Orders (or in effect pursuant to the True-Up Letter dated _____), this filing modifies the variables used in the Transition Bond Charge and TBC-Tax calculation and provides the resulting modified Transition Bond Charge and TBC-Tax charge. Table I shows the revised assumptions for each of the variables used in calculating the Transition Bond Charge and TBC-Tax charge. The assumptions underlying the current Transition Bond Charge and TBC-Tax charge were filed by the Company in an Issuance Advice/True-Up Letter dated _____.

Based on the approved formula, the proposed Transition Bond Charge is _____ ¢/kWh and the resulting TBC-Tax is _____ ¢/kWh.

Respectfully submitted,

Attachment []

TABLE I
INPUT VALUES FOR ADJUSTED TRANSITION BOND CHARGE AND TBC-TAX

Forecasted annual kWh sales: _____

Days outstanding: _____

Percent of billed amounts expected to be charged-off: _____

For the Series 2004-1 Transition Bonds:

1. Under-collection of prior principal amount _____
2. Upcoming collection of current principal amount _____
3. Under-collection of prior interest amount _____
4. Upcoming collection of current interest amount _____
5. Under-collection of prior over-collateralization amount _____
6. Upcoming collection of current over-collateralization amount _____
7. Under-collection of prior tax component amount _____
8. Upcoming collection of current tax component amount _____
9. Deficiency in required capital amount _____
10. Amount in reserve subaccount _____
11. Upcoming period servicing and administration fees and expenses _____
12. New Jersey Statutory Corporate Business Tax Rate _____
13. New Jersey Sales Tax Rate _____
14. Federal Statutory Corporate Income Tax Rate _____

Designee Guidelines

Docket No. EF02110852

The Designee is empowered to agree to the terms and conditions of the Transition Bonds to be issued to recover a portion of the Stranded Costs of Rockland Electric Company (the "Company"), and to certify that the structuring and pricing of the Transition Bonds assure that the ratepayers will pay the lowest Transition Bond Charges ("TBC") consistent with market conditions and the terms of the Financing Order; provided, however, that the Designee cannot approve the terms and conditions or deliver such certification if the terms and conditions of the structuring and pricing of the Transition Bonds fall outside the parameters set forth below:

Bond Size:	Not to exceed \$46,300,000
Bond Maturity:	15 year scheduled amortization, not to exceed 18 year final stated maturity for Series 2004-1 Transition Bonds the proceeds of which will be used to reduce stranded costs related to the Company's generation assets.
Amortization:	Set to provide an approximately level TBC rate per kWh.
Payment Dates:	The first payment of interest shall commence on or before _____ and the first payment of principal shall occur within 15 months of issuance, and payments of principal and interest shall be no less frequent than quarterly.
Capital Account and Over-Collateralization:	The Company shall capitalize the SPE at no less than 0.50% of the initial principal amount of the Series 2004-1 Transition Bonds. The Transition Bond Charge shall include over-collateralization in amounts sufficient to build up to at least 0.50% of the initial principal amount of the Series 2004-1 Transition Bonds.
Redemption Features:	The Series 2004-1 Transition Bonds will have a 5% "clean-up" call.
Underwriting and Syndication:	Consistent with the provisions of the Financing Order, the Transition Bonds were offered by way of a negotiated sale, and customary practices were used in the syndication and underwriting process for the execution of an asset-backed securitization of this size and credit quality.
Floating Rate Bond Hedging Arrangement:	If the Company proposes to cause the issuer to issue floating rate bonds which are swapped to a fixed rate then any such swap shall be competitively bid among no less than three (3) qualified swap counterparties and the issuer shall accept the lowest responsible bid taking into account the trading value of the counterparties. A swap counterparty shall be deemed a qualified swap counterparty if the rating of the counterparty is at least AA-/ Aa3.

Hedging Arrangement: The Designee may authorize a Hedging Arrangement if (i) the Company notifies the Designee and the Financial Advisor that it proposes to enter into a Hedging Arrangement, (ii) the Company provides an analysis to the Designee and the Financial Advisor comparing the estimated present value savings using the Hedging Arrangement and the estimated present value savings assuming the Transition Bonds were issued on the same date, (iii) the difference between the estimated present value savings using the Hedging Arrangement and the estimated present value savings assuming the Transition Bonds were issued on the same date is less than \$500,000 and (iv) the Financial Advisor concurs with the analysis.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Financing Order.

The terms and conditions described therein are hereby approved with such modifications and amendments as are acceptable to the Designee relying upon the written advice and recommendations of the Financial Advisor (collectively, the "Designee Guidelines").

CONFIDENTIAL

Appendix G

FORM OF CITIGROUP CERTIFICATION
[Citigroup Letterhead]
[To be filed on the date of pricing of the Transition Bonds]

[DATE]

[Kristi Izzo, Secretary
State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102]

and

[Board Designee]

Re: Bondable Stranded Costs Rate Order - Docket No. EF02110852 (the
"Financing Order").

Dear Secretary Izzo:

We have been exclusively engaged by Rockland Electric Company (the "Company") to act as lead underwriter in connection with the offering by Rockland Electric Company Transition Funding LLC (the "Issuer") of \$46.3 million in aggregate principal amount of Transition Bonds, Series 2004-1 (the "Series 2004-1 Transition Bonds") pursuant to the terms of an underwriting agreement dated as of [insert pricing date] (the "Underwriting Agreement"). The Transition Bonds were priced at [:] [A.M./P.M.], New York time today (the "Pricing Time"). At the Pricing Time, we agreed to purchase the Series 2004-1 Transition Bonds from the Issuer, Rockland Electric Company Transition Funding LLC, subject to certain conditions contained in the Underwriting Agreement. Any capitalized terms not defined herein shall have the meanings ascribed thereto in the Financing Order.

The Company has informed us that the State of New Jersey Board of Public Utilities issued the Financing Order dated May [], 2004 and that the Financing Order requires the Company's lead underwriter to file a Certification supporting the Company's Pricing Advice Certificate when [(i)] pricing terms for Series 2004-1 Transition Bonds have been approved by the Company [and (ii) when the terms of a hedging arrangement have been approved by the Company].

In its Pricing Advice Certificate, the Company indicated that terms of pricing and issuance are as follows:

Name of Transition Bonds: Series 2004-1 Transition Bonds
SPE Name: Rockland Electric Company Transition Funding LLC

Closing Date: July __, 2004
Amount Issued: \$46,300,000
Interest Rates and Expected Amortization Schedule: See Attachment 1
Distributions to Investors:
Weighted Average Coupon Rate: _____
Weighted Average Yield: _____
Capitalization Amount: _____
Annual Servicing Fee: _____
Overcollateralization Amount: _____
Overcollateralization Schedule: See Attachment 1

[Brief description of any interest rate exchange agreement or other hedging arrangement:]

For purposes of the certification set forth herein, we have:

- (i) reviewed the structuring and pricing of the Series 2004-1 Transition Bonds as set forth in the Company's Pricing Advice Certificate;
- (ii) reviewed the reported prices and trading activity for other publicly traded "stranded costs" bonds that are comparable to the Series 2004-1 Transition Bonds;
- (iii) reviewed the Financing Order, including the Company's methodology and assumptions set forth therein for calculating the Transition Bond Charge;
- (iv) discussed with senior executives of the Company the Company's methodology and assumptions for calculating the Transition Bond Charge;
- [(v) reviewed the structuring and pricing of the hedging arrangement and the proposed structuring and pricing of the Series 2004-1 Transition Bonds as set forth in the Company's Pricing Advice Certificate;
- (vi) reviewed the pricing of certain comparable hedging arrangements that are known to us;] and
- (vii) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon without independent verification the accuracy and completeness of the information provided to us by management of the Company and reviewed by us for the purposes of this certification. We have also assumed that the Company implements the transactions contemplated hereby in accordance with the terms of the Financing Order, including that any hedge payment benefits ratepayers. Our certification is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. We have not made any independent valuation or appraisal of the assets or liabilities of the Issuer, nor have we been furnished with any such appraisals. This certification does not constitute a bid for any of the Series 2004-1 Transition Bonds. Rather it is a statement of our view of the reasonableness of the structuring and pricing of the Series 2004-1 Transition Bonds, as proposed, at a particular point in time relative to current market conditions. The structuring and pricing of the Series 2004-1 Transition Bonds does not reflect a level or levels at which actual other transactions have occurred or may occur.

Our views set forth in this certification may vary significantly from the views expressed in certifications from other sources.

It is understood that this certification is solely for the information of the Board and the Board Designee and is not on behalf of, and is not intended to confer any rights upon, any other person, and this certification is not to be relied upon by any other person for any purpose. This certification is being delivered to the Board and the Board Designee pursuant to the Financing Order for the sole purpose of supporting the Company's Pricing Advice Certificate. It is understood that the delivery of this certification by us to the Board and the Board Designee does not establish a fiduciary relationship between us and the Board or the Board Designee. This certification does not address nor should it be construed to address the relative merits of alternative business strategies that may be available to the Company.

We have acted as lead underwriter for the Company in connection with the proposed offering of Series 2004-1 Transition Bonds and will receive underwriting compensation for our services. We will not receive a separate fee for providing this certification. In the past, we have provided [financial advisory and] financing services for the Company and have received fees for the rendering of these services.

Based on the foregoing it is the view of Citigroup, as lead underwriter, that:

- (1) The structuring and pricing of the Series 2004-1 Transition Bonds, as proposed, is reasonable in the light of current market conditions.
- (2) Assuming the accuracy of the assumptions of the Company contained in the Financing Order and the formulae contained therein, and of the consistency of mathematical calculations made by the Company with those formulae contained in the Financing Order, the customers of the Company will pay the lowest transition bond charges consistent with current market conditions and the terms of the Financing Order.

[or, if the certification is given in connection with the execution of a hedging arrangement in advance of the pricing of the Series 2004-1 Transition Bonds

- (1) The structuring and pricing of the hedging arrangement is reasonable in light of current market conditions.
- (2) The hedging arrangement reasonably protects ratepayers against interest rate increases above the locked-in rate which may occur after the date of its execution.]

[or if the certification is given in connection with the termination of a hedging arrangement, the pricing of the termination payment is reasonable in light of current market conditions.]

Respectfully submitted,

Citigroup

Attachments

Form of Advisory Letter from Bear Stearns & Co. Inc.
As Financial Advisor

Bear Stearns & Co. Inc. ("Bear Stearns") has acted as the financial advisor to the New Jersey Board of Public Utilities ("BPU") with respect to the offering and issuance of \$46,300,000 of Series 2004-1 Transition Bonds (the "Transition Bonds") and/or the execution of a hedging arrangement by Rockland Electric Company Transition funding LLC (the "Issuer").

Bear Stearns has examined (i) the Petition of Rockland Electric Company ("Rockland") for a Bondable Stranded Cost Rate Order, dated November 8, 2002 (the "Petition"); (ii) the Financing Order of the BPU dated April [], 2004 (the "Financing Order") (iii) the form of Prospectus and Prospectus Supplement of the Issuer as filed with the SEC on [date of final draft reviewed] concerning the Transition Bonds (collectively the "SEC Filing"); (iv) the final pricing terms (the "Final Terms") for the Transition Bonds provided by Citigroup (the "Lead Underwriter") which final pricing terms were agreed upon between the Issuer, Rockland and the Lead Underwriter; (v) the Underwriting Agreement for the Transition Bonds (the "Underwriting Agreement"), proposed for execution on the date hereof among Rockland, the Issuer and the Lead Underwriter; (vi) the form of Designee Certification proposed to be delivered to the BPU within two business days after the final pricing terms are determined pursuant to the Financing Order; (vii) the Pricing Advice Certificate delivered by Rockland on the date hereof; and (viii) such other documents, representations and other forms of information as we have deemed necessary and appropriate in order for us to deliver this Advisory Letter. We have found the following:

1. The structuring and pricing of the Transition Bonds (and any hedging arrangement), as evidenced, inter alia, by the terms thereof contained in the SEC Filing and the Final Terms provided to us by the Lead Underwriter are reasonable in light of current market conditions and are consistent with the terms of the Financing Order.
2. The Final Terms of the Transition Bonds including the syndicate rules, the estimated costs of issuance, the overcollateralization levels and the servicing fees, appear reasonable and consistent with current market conditions.
3. The initial Transition Bond Charge proposed by Rockland in accordance with the Financing Order should be [adjusted up or down] [left unchanged] in order to provide the Issuer with amounts not less than those necessary to fully recover the bondable stranded costs of Rockland, in light of the actual interest rates achieved in the marketing and sale of the Securities and the costs, including overcollateralization of __%, associated with the issuance of the Transition Bonds.
4. Assuming the accuracy of the assumptions of Rockland contained in the Financing Order and the formulae contained therein, and of the mathematical calculations made by Rockland thereunder, the structuring and pricing of the Transition Bonds assure that the customers of ACE will pay the lowest Transition Bond Charges consistent with current market conditions and the terms of the Financing Order.
5. Rockland has delivered its Pricing Advice Certificate, which conforms to the Final Terms.

**I/M/O the Verified Petition of Rockland
Electric Company for a Bondable
Stranded Cost Rate Order
BPU Docket No. EF02110852**

SERVICE LIST

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